FINANCIAL TIMES

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THURSDAY MAY 14 1998

South Africa
Business that boosts blacks turns into a nightmare
Page 6

Daimler-Benz and Chrysler
How Schrempp and Eaton steered the merger plan
Page 19

Sweden's unemployed
Training scheme gives jobless a second chance
Page 2

Today's surveys
Czech Industry
Pension Fund Investment
Separate sections

WORLD NEWS

Euro Parliament signals dislike of deal over Central Bank presidency

The European Parliament objected to the compromise over the European Central Bank presidency. Members voted to obstruct Dutchman Wim Duisenberg's stated intention to quit midway through his term to make way for France's Jean-Claude Trichet. Page 16

Israelis kill Palestinians
Israeli warplanes raided eastern Lebanon overnight, killing 10 members of the radical Palestinian Fatah Uprising group. The toll was the highest in a single incident inside Lebanon since last September, when 12 Israeli soldiers died in a botched commando raid.

Move in Kosovo crisis
US mediation in the Kosovo crisis paid off when Yugoslav president Slobodan Milosevic invited ethnic Albanian separatist leader Ibrahim Rugova for peace talks tomorrow. Page 2

Brundtland to head WHO
Norwegian ex-premier Gro Harlem Brundtland was elected director-general of the World Health Organisation in a secret ballot. She has vowed global war against smoking.

Ethiopia demands withdrawal
Ethiopia accused African neighbour Eritrea of aggression and demanded withdrawal of its troops from territory in the north.

Turks protest against shooting
Thousands of Turks protested over Tuesday's gun attack on human rights campaigner Akin Birdal, who recovered consciousness yesterday. The shooting raised suspicions that the government was behind the shooting.

Mudslide toll tops 140
The number of people known to have died in southern Italy's mudslides rose to 143 with 136 people still missing.

US aid for Cuba proposed
US senator Jesse Helms, architect of Washington's anti-Cuba trade law, is expected to propose a $100m US humanitarian aid package to the island. Page 4

Looting as Brazil famine bites
Police are investigating looting at supermarkets and food warehouses as disorder spreads through drought-stricken northeast Brazil. Page 5

Khmer Rouge on the run
Cambodian government troops consolidated their hold on land captured from the Khmer Rouge near the Thai border as the rebels' clandestine radio went off the air.

Count faster, says Ramos
Philippines president Fidel Ramos urged vote-counters to work faster after supporters of Joseph Estrada, apparent victor in the presidential polls, accused the ruling party of trying to fix the results.

Desperate measures
Russian miners blocked a railway line and locked their bosses in their offices at Inta in the north of the country to press demands for payment of wage arrears.

Moma may return paintings
A New York judge ruled the Museum of Modern Art may return two paintings to the Austrian foundation that lent them. The families of the works' previous owners claimed they were stolen from their relatives by the Nazis.

Moderns auction raises $61m
Christie's in New York auctioned 52 20th century art works for $61.3m . Page 4

BUSINESS NEWS

Roche shares fall as US regulators seek more data on anti-obesity drug

Shares in Swiss drugs company Roche fell sharply after US health regulators postponed the launch of the company's anti-obesity drug Xenical and demanded further safety data. Page 17

Deutsche Bank of Germany rose to second place in the annual Euromoney survey of foreign exchange banks. Citibank of the US led the survey for the 20th time. Page 20

Telefónica, Spanish telecoms group, posted a 17.8 per cent increase in first-quarter net profit to Pta32.8bn ($218m), helped by growth in its mobile and Latin American businesses. Page 23

Tetley, the world's second largest teabag maker, plans to float on the London Stock Exchange. Page 24; Picture, Page 17

Cable and Wireless, the UK's second largest telecoms company, plans to launch operations in more than 20 European cities. Page 17; Comment, Page 24

Matif, France's derivatives exchange, is preparing to close its "open outcry" floor trading operation. Page 17

Allianz, Germany's biggest insurance group, rejected the idea it might try to develop it into a global financial services concern. Page 17

Dafem Holdings, Hong Kong arm of one of China's largest industrial groups, saw its shares fall after reports that a senior executive had been arrested in Beijing. Page 22

EasyJet, UK cheap fare airline, won permission to continue its court action against Go, its low-cost rival operated by British Airways. Page 10

World Wide Minerals of Canada is seeking $220m from the former Soviet republic of Kazakhstan for allegedly failing to honour a uranium export agreement. Page 7

Anglo American of South Africa and its subsidiary Anglogold are to take a 50 per cent stake in the African exploration interests of Canada's Barrick Gold and manage them in a series of joint ventures. Page 20

South Korea said it would abolish a foreign shareholding limit of 55 per cent in listed companies on June 1 to attract overseas investment. Page 22

Dickson Concepts, Hong Kong luxury retail group, failed to take control of US department store owner Barney's. Page 23

Republic Industries, US car dealerships and rentals chain, is to raise almost $2bn by splitting off its waste management business. Page 17

Fuji Photo Film, Japanese photographic materials maker, reported higher annual profits, helped by strong overseas sales. Page 22

Dead Sea Works, Israeli chemicals manufacturer, signed a memorandum of understanding with China to build a $450m potash plant in Qinghai province, north-west China. Page 7

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 37

NEW DELHI DEFIES WORLD OPINION AS PRESIDENT CLINTON CONDEMNS 'TERRIBLE MISTAKE' AND IMPOSES SANCTIONS

India carries out two more nuclear tests

By Gerard Baker in Berlin and Amy Louise Kazmin in New Delhi

A defiant India exploded two more nuclear devices yesterday, hours before US President Bill Clinton imposed wide-ranging economic sanctions on the country for Monday's three nuclear tests.

India's Hindu nationalist-led government said the two latest underground explosions completed "a planned series of tests".

Mr Clinton, describing the tests as a "terrible mistake", said US law gave him no choice but to impose the sanctions, which include a ban on all but humanitarian aid, curbs on official lending and restrictions on high-technology exports.

"It is important we make clear our categorical opposition. We will ask other countries to do the same," he said.

Mr Clinton said he had spoken to Nawaz Sharif, prime minister of Pakistan, and urged him not to follow India's lead, but indicated that he had received no assurances from Mr Sharif.

"I understand the pressures on him at home are probably enormous...I can't say for sure what is going to happen," said the president, in Germany for talks with Chancellor Helmut Kohl before this weekend's economic summit of leading industrialised nations in the UK. Mr Kohl also condemned the Indian tests but pointedly declined to say whether Germany would join the US in imposing sanctions.

Japan, which is India's largest aid donor, yesterday said it would freeze aid to New Delhi. Ryutaro Hashimoto, the prime minister, said the government would also review its position on yen loans to India.

Pramod Mahajan, political adviser to Atal Behari Vajpayee, the Indian prime minister, said his country was prepared to face any retaliatory sanctions, including the cutting off of foreign aid and an investment slowdown. "India has the inherent strength to stand up to sanctions," Mr Mahajan said, adding that the government continued to welcome foreign investment.

Yesterday's tests were of two "sub-kiloton" nuclear devices, which could be used for nuclear artillery shells, and other battlefield weapons. A government statement said the tests were "fully contained" and that there had been no release of radioactivity into the atmosphere. Amid the widespread condemnation, India said it "reiterates the offer to consider adhering to some of the undertakings" of the Comprehensive Test Ban Treaty. Many strategic analysts believe the tests were a necessary precursor to India signing the treaty.

Under US law, any country which conducts a test and has not previously declared a nuclear capability automatically faces sanctions by Washington.

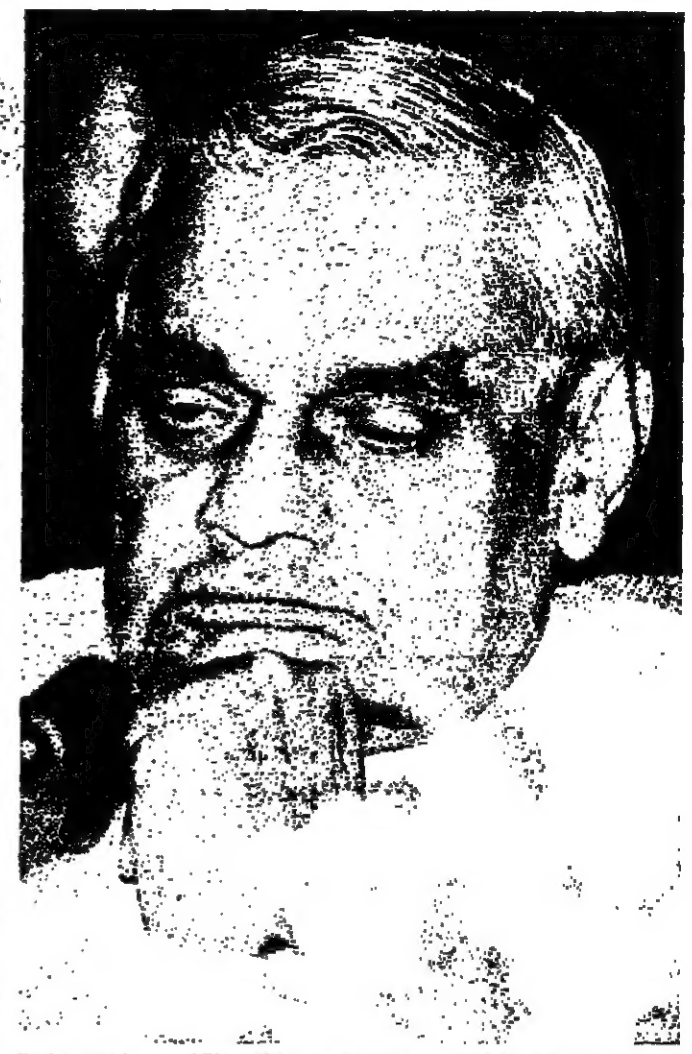
The president can ask Congress for a 30-day delay to enable him to conduct diplomatic initiatives, but Mr Clinton has not done so in the case of India.

Only Congress can lift the sanctions, which cover all official loans and lending by US banks to the Indian government and include a ban on defence exports and restrictions on certain high-technology exports.

In an effort to contain the damage from the tests, Mr Clinton said he believed New Delhi's decision was driven by a belief that the rest of the world did not fully appreciate India's strength.

But the president also acknowledged a serious failure by US intelligence agencies to detect India's plans and announced an immediate and full inquiry by the Central Intelligence Agency into what had gone wrong.

INSIDE
Analysis Page 3
Editorial Comment Page 15
Lex Page 16



Facing criticism: Atal Bihari Vajpayee, Indian prime minister, listens to speakers at a meeting in New Delhi yesterday. His political adviser said India was prepared for retaliatory sanctions, including a cut in aid. Picture: AP

Suharto cuts visit as riots shake Jakarta

Police and soldiers reassert control after capital is hit by violence

By Sander Thoenes in Jakarta

President Suharto of Indonesia was yesterday forced to cut short a trip abroad as widespread rioting hit the capital for the first time since the country's economy slumped last year.

Riot police and soldiers appeared to have regained control over two main thoroughfares in Jakarta last night, following a day of violence that left at least one person dead and nine wounded, including one by live ammunition and five by rubber bullets. On Tuesday, six student demonstrators were killed in clashes with police.

The protests represent the most serious threat in decades to the authority of Mr Suharto, who will return to Indonesia today, curtailing a visit to Cairo for a conference.

Yesterday he expressed "deep concern" over the student killings and urged "the whole nation, especially the younger generation and students and all parties to show restraint".

The police's unprecedented use of force against students on Tuesday, apparently unprovoked, has sparked a nationwide outcry from public figures and the media, usually careful to toe the government line. Amien Rais and other opposition leaders, as well as many former government officials, said yesterday Mr Suharto should resign, and called on the military to drop its support for the president.

The UK and US governments, among others, said yesterday they deplored the most recent killings and called for political reform, dropping their neutral stance regarding domestic Indonesian politics.

The rupiah fell 15 per cent to below Rp10,000 to the dollar and the stock market lost 8 per cent. Markets across south east Asia were dragged down as concern spread about Mr Suharto's hold on power and his ability to continue with economic reforms.

The most serious riots broke out yesterday morning after thousands gathered from nearby slum areas at a traffic crossing in front of Trisakti University, where the six student protesters had died. A second bout of protests and looting broke out in the afternoon on the main street, Sudirman, near another student protest. The police succeeded in protecting large shopping malls from looters but the crowds were able to set fire to some shops and vehicles in side streets, until after sunset.

Police were relatively restrained yesterday and the riots appeared less destructive than in 1996, when at least five people were killed after a political conflict moved into the streets.

The recent violence may spark more unrest as students and other groups take to the streets again in the coming days. At least one protest is planned in the city centre today and many campuses nationwide have been preparing for large protests on May 20.

Indonesia's poor and middle class have been hit hard by another round of sharp price rises in recent days, including for basic foodstuffs, following a government decision last week to cut subsidies on fuel and public transport.

"We are hungry," one man said almost apologetically, casting one eye at a motorcycle repair shop that had just been torched and plundered. "We just can't take it any more."

Suharto hurries home, Page 8
World Stocks, Page 38
Currencies, Page 27

Nomura joins IBJ in asset management

By Gillian Tett in Tokyo

Nomura Securities and Industrial Bank of Japan, two of Japan's most prestigious financial institutions, are joining forces in three ventures aimed at tackling increased competition from international investment banks.

The groups plan to establish two joint ventures in asset management and derivatives. IBJ will also take a 50 per cent stake in a Nomura US subsidiary with a view to attracting mutual fund products to Japan.

Junichi Ujiie, Nomura president, said: "The target is to share our management resources and compete head to head with foreign institutions."

The big US investment banks – Merrill Lynch, Goldman Sachs and Morgan Stanley – have been expanding rapidly in Japan to take advantage of the "big bang" deregulation of financial services.

The deals are the first business collaboration between a large securities house and a large bank in Japan and may be an indication of the scale of realignment to come in financial sectors.

Betsy Daniels, analyst at Morgan Stanley, the US investment bank, said: "This shows big bang is happening. Companies are taking advantage of the new opportunities to be more flexible."

The alliance, known minutes before Tokyo markets closed, was welcomed by investors. IBJ shares rose Y26 to Y880. Nomura's rose Y65 to Y1,600. IBJ and Nomura stressed they had no plans to establish cross-shareholdings or a fully-fledged merger, but did not rule out closer links.

Executives said the ventures were not expected to merge the groups' existing businesses but allow them to enter new fields.

Masao Nishimura, IBJ president and Mr Ujiie said in a joint statement: "We have agreed to forge these alliances in an attempt to offer the best financial services to meet demand from Japanese clients under Japan's big bang financial reforms."

The announcement triggered speculation about alliances between brokers and banks. Such joint ventures between brokers and banks have been difficult in Japan because the industry was segregated into different types of financial services.

Some analysts suspect the big bang reforms could eventually lead to the creation of universal banking companies in the country. Analysts said the significance of the agreement would not emerge until the companies provided more details of their plans.

Nomura, Japan's largest broker, employs more than 10,000 staff worldwide. IBJ, which employs more than 5,000, is the largest of Japan's long-term credit banks and considered to have among the best corporate client base of any Japanese bank.

Lex, Page 16

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9211.84	(+50.07)
NASDAQ Composite	1867.64	(+7.48)
Europe and Far East		
CAC40	4019.76	(+32.43)
DAX	5376.88	(+79.53)
FTSE 100	5972.9	(+16.2)
Nikkei	15,343.81	(+21.33)
US Lunchtime RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.11%	
Long Bond	102%	
Yield	5.94%	
OTHER RATES		
UK: 3-mo interbank	7⅞%	(7⅞%)
UK: 10 yr Gilt	109.7186	(109.789)
France: 10 yr OAT	103.49	(103.18)
Germany: 10 yr Bund	107.07	(106.75)
Japan: 10 yr JGB	111.35	(111.40)
NORTH SEA OIL (Argus)		
Brent Dated	$14.38	(14.60)

GOLD		
New York Comex		
May	$298.3	(298.0)
London		
	$298.15	(298.05)
EXCHANGE RATES		
Dollar		
New York Lunchtime		
£	1.6325	
DM	1.7792	
FFr	5.9625	
SFr	1.4807	
Y	134.15	
London		
£	1.634	(1.633)
DM	1.7778	(1.7747)
FFr	5.9605	(5.951)
SFr	1.478	(1.4811)
Y	134.04	(133.835)
Tokyo Close		Y 134.18
Sterling		
DM	2.9049	(2.9002)

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CONTENTS

Full contents and Lex: back page

WORLD NEWS

EUROPE

Clinton plea on US-Europe ties

By Gerard Baker in Berlin

President Bill Clinton called yesterday for the creation of a transatlantic community built on closer economic and political ties between the US and Europe that would ensure lasting peace and prosperity for the people of both continents.

Speaking to a gathering of German political leaders in Berlin, Mr Clinton paid tribute to the great progress made towards European unity in the last decade, and urged further efforts through the enlargement of Nato and the expansion and continued integration of the European Union. "We must make unity our ambition for the continent as a whole and for a new transatlantic community," he said.

Mr Clinton noted that the economic relationship between the US and Europe was the most important in the world. US companies invested as much in Europe as in all the other countries of the world combined. Transatlantic trade was worth over $500bn a year. One in 12 US factory workers was employed by European-owned companies, he added.

But the president stopped short of offering any economic proposals for transatlantic relations. A proposal announced earlier this year by the European Commission for the completion of a "transatlantic marketplace" ran into heavy opposition from France, and US and European officials are busy trying to come up with something less contentious.

Mr Clinton said there were several threats to peace and security that Europe and the US must face together, including violence in Kosovo, instability in Bosnia, organised crime and environmental degradation.

He said the US would work to strengthen ties with Russia, Ukraine and other countries of the former Soviet bloc, though he did not endorse the idea of Russian inclusion into Nato, a sensitive political issue in the US. He offered praise for the efforts of President Boris Yeltsin's reformist cabinet and said: "We must support this Russian revolution."

Mr Clinton had warm words for Germany, and singled out Chancellor Helmut Kohl for his role in unifying Germany and in pushing for closer integration within Europe, most notably in economic and monetary union.

"Though many German citizens are uncertain of the outcome, you are clearly on the right side of history. We are proud to march with you, shoulder to shoulder."

Today he will mark the 50th anniversary of the Berlin airlift with ceremonies honouring the pilots who flew vital supplies into Berlin during the Soviet blockade in 1948.

E German move a blow to Schröder

By Peter Norman in Bonn

The campaign of Gerhard Schröder, the Social Democratic party challenger to Chancellor Helmut Kohl, suffered a potentially serious setback yesterday when the SPD in the eastern German state of Saxony-Anhalt pressed ahead with preparing a minority government supported by former communists.

Reinhard Höppner, the state's SPD prime minister, unveiled the main elements of his government's programme for the next four years, confident he would be supported by the former communist Party of Democratic Socialism.

The PDS said it would "tolerate" a minority SPD government in Magdeburg without setting preconditions. After the April 26 Saxony-Anhalt election, the SPD will have 47 seats in the new 116-seat state parliament and the PDS 25 seats, making a minority SPD government with PDS support feasible.

The move poses problems for Mr Schröder, who with other SPD leaders in Bonn put heavy pressure on Mr Höppner to enter talks with the Christian Democratic Union (CDU), Mr Kohl's party, to form a "grand coalition" in the state. Mr Höppner's decision four years ago to form a minority coalition of SPD and environmentalist Greens in Magdeburg with tacit PDS support was later seen as one reason for the SPD's failure to win the 1994 elections.

Talks between the SPD and CDU in the state broke down on Tuesday evening after just two short sessions, exposing Mr Schröder to charges from Mr Kohl's coalition that the SPD is consorting with former communist enemies of Germany's democratic constitution.

Mr Kohl's campaign managers have started portraying the September 27 general election as a contest between left and right, whereas Mr Schröder's strategy is to position the SPD in "the new centre" of German politics.

Wolfgang Schäuble, CDU leader in the Bundestag, was quick to capitalise on Mr Schröder's predicament yesterday. Interviewed by the mass circulation Bild newspaper, he said voters in September had a clear choice between Mr Kohl's coalition or a coalition of SPD and Greens which "might or might not" be supported by the PDS.

However, Franz Müntefering, the SPD general secretary, pledged there "will be no SPD-led government at the national level which depends directly or indirectly on the PDS".

He predicted that events in Magdeburg would have no effect on the general election because west German voters realised the situation in eastern Germany was different.

Milosevic to meet Kosovo leader

By Guy Dinmore in Belgrade

Slobodan Milosevic, Yugoslavia's president, and the leader of Kosovo's ethnic Albanian majority will meet for the first time tomorrow against a background of violence in the Serbian province that threatens to spark a wider Balkan war.

The breakthrough was announced yesterday by two US envoys, Richard Holbrooke and Robert Gelbard, who succeeded after four days of intensive talks where European diplomats had failed before them.

The meeting in Belgrade is to be followed within a week by talks between negotiating teams of the two sides at least once a week in Kosovo's capital, Pristina.

In a concession to Mr Milosevic, no foreign mediator will be present, but Mr Holbrooke made it clear that US involvement in the peace process would continue.

Mr Gelbard said he would call an early meeting of the six-nation Contact Group. US officials indicated, if serious dialogue began, the US and its European allies would lift a ban on foreign investments that was imposed on Serbia this month.

Other sanctions levelled over the past two months, including a freeze on government credits and a UN arms embargo, would require further concessions from Mr Milosevic such as withdrawal of the special police forces that massacred civilians in Kosovo in February and March.

"After years of non-communication, escalating violence and the threat of a truly regional war, the two leaders and their teams will finally meet face to face," Mr Holbrooke said.

But difficulties lay ahead. The two sides, he said, had made no substantive change in their positions. Mr Rugova, leader of the Democratic League of Kosovo, said he will demand full independence for Kosovo, a stance that finds little or no international support. Mr Milosevic proposes strictly limited self-rule.

Mr Holbrooke, who negotiated an end to the 1992-95 Bosnian civil war with the help of US air strikes on Serb positions, said he did not expect the violence in Kosovo to stop with the start of peace talks.

Serbian security forces are taking casualties each day from the shadowy Kosovo Liberation Army (KLA), which Washington said is supported by Islamic fundamentalists based in Iran.

Political parties in Kosovo have links with the KLA at the village level, but Mr Rugova has no control over the rebels.

Sweden's unemployed find themselves back at school

The jobless are getting hope from a big new adult education programme funded by the government. **Greg McIvor** reports

Magnus's career has hardly sparkled since he dropped out of upper school 13 years ago. After occasional work in shops, on ferries and then as a gravedigger, the 32-year old Stockholmer has been without a job for five years .

Lacking good academic qualifications and consigned to Sweden's swollen ranks of long-term unemployed, prospects of finding employment were not bright. Until, that is, his local labour exchange assigned him to a computer science course as part of a huge new government-funded adult education programme.

The one-year course, which he completes this autumn, has put him in line for a job in the country's booming information technology sector, where trained technicians are in short supply. "In an ideal world it is not the field I would have chosen. But I'm grateful because it has offered me a chance to get into the labour market I would not have had otherwise," said Magnus.

He is among the first batch of 120,000 people participating in the government's *kunskapslyftet* – "the knowledge lift" – a mass adult education scheme launched last year amid great fanfare by Göran Persson, the prime minister .

One of the biggest state training projects of its kind in Europe, the programme is planned to run until 2002. By then it will have encompassed up to 625,000 people – equivalent to 15 per cent of Sweden's workforce – at a cost to taxpayers of more than SKr20bn ($2.63bn).

The idea is to provide a second chance for adults to achieve upper-secondary qualifications and to enhance vocational skills. Courses range from basic mathematics, language and science subjects to studies directed at specific sectors where labour supply is tight, such as IT and nursing.

The *kunskapslyftet* is the fulcrum of the Social Democratic government's drive to reduce the official unemployment rate of 6.4 per cent to 4 per cent by 2000. By raising educational and skills levels, ministers assert, workers will be better qualified for the jobs created by expected economic expansion.

"The training as such does not create jobs, but it gives people the chance to take the jobs which arise from economic growth," said Anders Franzen, senior adviser to the *kunskapslyftet* secretariat at Stockholm's education ministry. "Our studies show even people currently in work who don't have these levels of education won't necessarily be able to retain their jobs."

Most agree that raising education levels is a noble ambition. But opinions diverge on whether the money is well spent.

Cynics joke that Sweden already has the world's best-educated taxi drivers. The country spends 6.7 per cent of gross domestic product on education, more than any other country in the Organisation for Economic Co-operation and Development apart from Denmark. And only Denmark spends more on labour market training programmes.

Employment, said sceptics, would be better served by loosening rigid labour market regulations than by pouring money indiscriminately into training courses.

Jan Herin, chief economist at the Swedish Confederation of Employers, described the *kunskapslyftet* as "either a shot in the air or a shot in the foot". He argued the courses are not sufficiently vocational, nor closely enough targeted to participants' needs or abilities – criticisms frequently voiced by participants themselves.

Some economists and opposition politicians claim the scheme is merely an expensive ruse to massage unemployment down to the government's 4 per cent comfort level.

The assertion is not wholly baseless: all *kunskapslyftet* participants are classed as students and in consequence are excluded from the workforce – a prime reason for a drop in the unemployment rate from 8.3 per cent one year ago.

Others complained the sheer size of the scheme is distorting the labour market and exacerbating a labour shortage currently being experienced in some occupations such as metalworking.

"Just as we are seeing increased demand for labour the workforce has been reduced by more than 2 per cent [because of the *kunskapslyftet*]," said Anne Wibble, a former finance minister who is now chief economist at the Federation of Swedish Industries.

One official who oversees *kunskapslyftet* courses in Stockholm said there was a risk that participants use the programme as a means to prolong their unemployment period rather than to find work. "For most it does not lead to a job, and for some studying becomes an alternative to finding work."

For people such as Magnus, the scheme does at least enhance prospects of finding work. And at a time when employers complain of falling education and skills levels, the hope is the long-term boost to industrial competitiveness will turn out to justify the investment.

Sweden

Unemployment rate as a % of labour force (sa)

Source: Datastream/ICV

Göran Persson
prime minister

LEGAL NOTICES

KINGSCROFT INSURANCE COMPANY LIMITED
(formerly Kraft Insurance Company Limited, Dart and Kraft Insurance Company Limited, and Dart Insurance Company Limited)
and
WALBROOK INSURANCE COMPANY LIMITED
and
EL PASO INSURANCE COMPANY LIMITED
and
LIME STREET INSURANCE COMPANY LIMITED
(formerly Louisville Insurance Company Limited)
and
MUTUAL REINSURANCE COMPANY LIMITED

('the KWELM companies')

Notice is hereby given that the fourth ANNUAL MEETING of the Scheme Creditors of the KWELM companies convened pursuant to clause 8.1 of the Scheme of Arrangement ('the Arrangement') will be held at 2.30pm (Pacific Daylight Time) on Tuesday 23 June 1998 at the Park Hyatt at Century City, 2151 Avenue of the Stars, Los Angeles, CA 90067, USA. The Scheme Administrators' report on the conduct of the affairs of the KWELM companies for the year to 31 December 1997 shall be laid before the meeting.

Scheme Creditors may attend in person (or, if a corporation, by a duly authorised representative) or they may appoint another person, whether a Scheme Creditor or not, as their representative to attend in their place. Forms of representation for use at the said meeting, copies of the Scheme Administrators' report and the Arrangement document incorporating the terms of the Arrangement are available on request to the Scheme Administrators at the address set out below.

Dated this 12 May 1998
C J Hughes and I D B Bond
Scheme Administrators
of the KWELM companies

Address for correspondence:
Coopers & Lybrand
Plumtree Court
London EC4A 4HT
United Kingdom
Telephone + 44 171 583 5000
Fax + 44 171 212 6708

Note

A London meeting of the Scheme Creditors of the KWELM companies will be held at 2.00pm on Thursday 2 July at the Coopers & Lybrand Training Centre, 2-3 Bloomsbury Square, London WC1 2RL, United Kingdom, for creditors who find London more convenient than Los Angeles.

French unions stage one-day rail strike

By Robert Graham in Paris

The main French railway unions staged a disruptive 24-hour strike yesterday in a show of strength ahead of a management pay offer expected next week.

The strike, called by five of the largest unions of the nine in the railways, caused most disruption to local and regional services. In the Paris region, the absence of commuter services led to large early morning traffic jams on the trunk roads into the capital.

The SNCF, the state-run operating company, said services on international connections and the main TGV high-speed routes were reduced by one-third and two-thirds. Service on the Eurostar Paris-London line was normal.

This was the first serious industrial action in more than a year by one of France's most powerful branches of organised labour. The unions fear that the Socialist-led government of Lionel Jospin, prime minister, will seek to limit wage increases, citing budgetary constraints and the railways' need to break even.

The unions said yesterday they had no wish to resort to industrial action next month, when France hosts the World Cup football tournament. A spokesman for the CGT union federation, Bernard Thibault, said: "I can promise that the CGT has never planned to disrupt transport during the World Cup. But you can't say that just because there's a World Cup there won't be any more social conflicts."

The unions' stance appeared to be an attempt to put the onus on the SNCF management and its paymasters in the government to settle the unions' demands. The government already faces a heavy bill, having agreed in January to a 1.3 per cent wage increase for public sector employees this year and in 1999. This is against headline inflation forecast – confirmed by yesterday's figures for April – of 1 per cent in 1998. As a result, most of the extra revenues arising from increased economic growth this year will be absorbed by the latter pay rise.

The railways' management, employing 174,000 people, face a special problem in pay increases because of a system of promotions and automatic seniority increments that add some 2.2 per cent to annual payroll costs.

Kiev warning over relations with the EU

By Charles Clover and Stefan Wagstyl in Kiev

Ukraine's new foreign minister has warned that a gap could grow between Ukraine and the west unless the European Union fosters better relations with Kiev.

Without naming Russia, Boris Tarasyuk told the *FT* in an interview that Ukraine could be pushed closer to "somebody's sphere of influence" as a result of Brussels's coolness towards Ukraine, which has expressed its desire to enter the EU in the long term.

Mr Tarasyuk, Ukraine's former ambassador to Brussels, criticised unnamed EU member states for deliberately impeding Ukraine's progress towards closer relations with the EU.

"It might lead to the understanding here that nobody wants us to be in greater Europe, that we belong to something else, let us call it a Eurasian space, or to somebody's sphere of influence... This would be a signal which would push Ukraine from Europe," he said.

Ukraine's official position on relations with Russia and western Europe, reiterated recently by President Leonid Kuchma, is that it wants "integration" with European and Euro-Atlantic structures and "co-operation" with Russia and the Commonwealth of Independent States (CIS).

But Ukraine, with 50m people and a per capita gross domestic product of $1,000, has faced opposition to its bid to deepen links with the EU since the early 1990s.

Mr Tarasyuk expressed his frustration that it took EU member states four years to ratify a Partnership and Co-operation Agreement with Ukraine, which was signed in 1994 and entered into force only in March.

"Being in Brussels, I was surprised at the slow pace of process of ratification of this agreement by EU member states. Certainly, this was intentional, and the question is why this approach was taken," he said.

Mr Tarasyuk acknowledged that Ukraine's slow record of economic reforms was hurting its relations with EU countries.

He was careful to stress that, at least for the time being, Ukraine would remain conservative in its approach to relations with Russia and other CIS countries, emphasising the word "co-operation" rather than "integration" with its northern neighbour.

NEWS DIGEST

SPANISH ECONOMY

Opposition disputes real level of government deficit

A war of figures broke out yesterday over the real level of Spain's government deficit after charges by José Borrell, the opposition Socialist party's new candidate for prime minister, that the centre-right administration was "camouflaging" a shortfall in social security payments.

Rodrigo Rato, finance minister, dismissed the charges as "utterly false". However, Mr Borrell returned to the attack, saying his allegations were based on a report from the prime minister's budget office. He claimed that there was an annual gap of Pta280bn ($1.8bn) between contributions accounted for and those actually received, and that the amount outstanding had reached a total of Pta1,580bn.

Experts said the dispute stemmed from a switch in accounting criteria since 1994 from a cash basis, recording payments when they are made, to an accrual principle, based on commitments. Officials said last year's unpaid contributions were Pta38bn. Part of this had since been recovered and there was no "camouflage", they said. **David White, Madrid**

GREEK PRIVATISATIONS

Athens sets out timetable

Greece yesterday announced the partial privatisation of 11 state-controlled enterprises over the next 18 months through the sale of strategic stakes to private investors and flotations on the Athens stock exchange. Because of past delays in launching privatisations, the Socialist government had been under pressure to set a firm timetable for its programme of disposals.

Yannos Papantoniou, economy minister, said the programme would be launched in June with the sale of a 20 per cent stake in Hellenic Petroleum, the state oil refining group, to be followed in September by a third offering of shares in OTE, the public telecoms operator.

Greece's chances of achieving membership of the euro by the target date of January 1 2001 will depend to a large extent on a rapid restructuring of the public sector, which accounts for about 60 per cent of GDP. **Kerin Hope, Athens**

EU AID PROGRAMME

Poland promises project details

Poland, under criticism from European Union officials for delays in providing details of aid projects to be financed by the EU's Phare programme, has promised to meet the EU's deadline of May 15 for delivering the necessary documents.

Ryszard Czarnecki, head of the government's Committee for European Integration, said yesterday work on the projects, worth Ecu212m ($235m) to be financed out of the EU's 1998 budget, had proceeded "more quickly than ever before". Any criticism "arose from a lack of knowledge and memories of what went before".

Last week Hans van den Broek, the EU's commissioner for external affairs, warned the Poles that their budget allocation for the this year's Phare programme could be lost if the projects were not delivered this week.

Mr Czarnecki said previous governments had run up delays of 12 months or more in agreeing annual Phare programmes with the EU. These programmes help to finance the modernisation of Polish institutions and fund infrastructural projects such as roads and frontier installations. However, Polish officials are confident that new and speedier consultation procedures with the EU mean that this year's programme will be agreed by autumn. **Christopher Bobinski, Warsaw**

TOBACCO ADVERTISING

MEPs vote for EU ban

All forms of advertising for tobacco in the European Union will become illegal after the European Parliament's approval yesterday of a total ban. The decision ends a decade-long tug of war between EU legislators and pressure groups backed by the tobacco industry and media trade bodies. The failure to secure approval for any of 65 proposed amendments means the directive will have to be translated into national legislation by the EU's 15 countries within three years.

Individual states can exempt the press from the ban for another year. Sponsorship of events by tobacco companies will be allowed for another two years, while sponsorship of worldwide events such as the soccer World Cup and Formula One racing will be tolerated until October 2006 at the latest.

Christian Cabrol, the French MEP and surgeon who drafted the report, said the outcome was "the first step towards diminishing tobacco consumption". The parliament's decision was attacked by lobby groups. The Confederation of European Community Cigarette Manufacturers said it would take legal action against the decision. **Samer Iskandar, Strasbourg**

DEUTSCHE POST

Expansion plans announced

Deutsche Post, the German mail service, which is being advised by N. M. Rothschild ahead of its stock market listing in 2000, said yesterday it was looking to build its European parcel network through acquisitions and partnerships.

Possible areas of expansion include France, the UK and Spain. Deutsche Post recently took a 22.5 per cent stake in DHL International, the international courier.

The group, which is owned by the German government, also said it would pay a DM103m ($56.5m) dividend – its first – after lifting operating profits from DM576m to DM752m in 1997. **Ralph Atkins, Bonn**

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PAKISTAN REACTION CLINTON'S CALL

Tit for tat pressure on Islamabad

By Farhan Bokhari in Islamabad

Pakistan last night appeared to be heading for a tit for tat response to India's nuclear tests after Gauhar Ayub, the foreign minister, declared that: "India's actions, which pose an immediate and grave threat to Pakistan's security, will not go unanswered. I repeat, not go unanswered."

President Bill Clinton had expressed his concerns earlier in a telephone conversation with Nawaz Sharif, Pakistan's prime minister. According to a statement issued by the prime minister's office, he told the US president that Pakistan "had no option but to take appropriate measures to protect its sovereignty and security in accordance with the aspirations of its people".

The exchanges came in a day of heightening tensions and fresh diplomatic activity aimed at dissuading Islamabad from responding in a hostile manner.

Pakistan's powerful military, which has ruled the country for half its 50-year history and which is still regarded as the real power behind the politicians, also took centre stage yesterday. General Jehangir Karamat, army commander in chief, held emergency talks with the prime minister, who chairs the cabinet defence co-ordination committee.

"The meeting affirmed the government's determination to reject any unilateral, selective and discriminatory pressure from any quarter on matters pertaining to national security," according to a government statement.

Analysts said that after India's two tests yesterday, Pakistan faces increasing pressure to conduct its own test. "Local opinion will demand some action. If they don't test, they'll be considered weak, but if they do, the effect of punitive sanctions could be crippling" said a senior diplomat.

In Karachi, top businessmen warned against the consequences of sanctions, which they said could be devastating for the economy. "It's the economic bomb whose consequences will be more severe," said Nasir Ali Shah Bukhari, head of Khadim Ali Shah Bukhari brokerage house.

Businessmen said Pakistan's $1bn foreign exchange reserves, enough for less than four weeks' imports, would dry up very quickly. Pakistan currently has a $1.6bn three-year IMF loan,which is considered an important guarantor of confidence in domestic markets.

If the government decided to carry out nuclear tests it would trigger US-backed sanctions, certain to include blockage of funding from the World Bank and the IMF.

Privately, an official said that prompt action by Washington, such as lifting a 1990 ban on the sale of military hardware to Islamabad, could help to "influence sentiments".

However, another warned that, given the nature of the perceived build-up, many Pakistanis would be tempted to take the risk of economic chaos if security needs forced the country to respond to India.

MILITARY BALANCE DOES INDIA NOW HAVE A USEABLE NUCLEAR WEAPON?

Looking for a home-grown deterrent

By Alexander Nicoll, Defence Correspondent

India's nuclear tests are part of an effort to develop sophisticated warheads small enough for its Agni and Prithvi missiles.

From data available so far, however, it is impossible to tell whether the tests have advanced Indian scientists towards this goal.

Some scientists were casting doubt yesterday on whether India had exploded a thermonuclear device, as was claimed in Monday's announcement by the prime minister, Atul Behari Vajpayee.

Roger Clark, a seismologist at Leeds University, said seismographic data showed a single explosion in the Rajasthan desert rather than three separate bangs. The explanation could be either that separate tests were carried out virtually simultaneously in almost the same location, or that the three devices – tactical fission, low yield and thermonuclear – referred to by Mr Vajpayee were in fact all part of the same bomb.

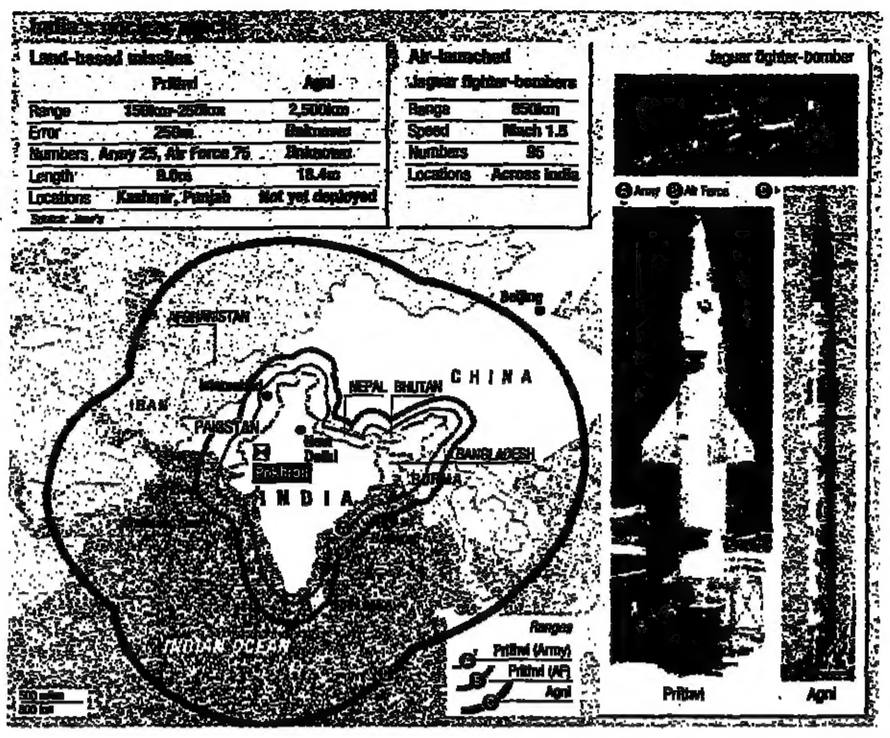
However, the data showed the estimated force of the explosion was only 20 kilotons, much smaller than the 100 kilotons or so which might be expected. Scientists said India would have achieved a high degree of sophistication if it produced an explosion as small as this containing all three elements.

Norman Dombey, professor of theoretical physics at Sussex University, said both an early Soviet test and a British test in 1957 had been claimed as thermonuclear when in fact they were not. "Perhaps the Indians are doing the same thing."

Suzanna van Moyland, a researcher at the Verification Technology Information Centre in London, said however that a 20 kiloton explosion was technically feasible given India's scientific capabilities.

Yesterday's tests were far smaller, registering no more than a small earthquake. But if India did succeed in exploding a thermonuclear device on Monday, it would have made a considerable advance since it carried out a more simple fission explosion in 1974.

Since China carried out its first nuclear test in 1964, India has been seeking to develop a nuclear capability which could deter its near neighbours.



Islamabad is an hour's flight from New Delhi. "The two countries are so close that a suitcase bomb would be a strategic weapon," says a western analyst. While it is not known whether either country has thought in such terms, it is generally assumed that India could deliver crude nuclear bombs simply by dropping them from aircraft.

The most common belief is that the Indian Air Force could use some of its 95 Jaguar fighter-bombers to drop unguided nuclear bombs. India also possesses hundreds of MiG fighters and some Mirages. There is no certainty about the number of droppable weapons which it might possess, although some experts believe estimates of 60 to 100 are too high.

Defence experts believe India is still a long way, however, from developing nuclear warheads which could be deployed on its two ballistic missiles, the short-range Prithvi and the medium-range Agni.

An Indian defence analyst yesterday expressed scepticism about New Delhi's capabilities. "In my judgment we don't have a missile that can be deployed with a nuclear warhead," he said.

The Prithvi's short range means it is designed for use against Pakistan. The Indian Army has deployed a 150km-range version for use as a tactical weapon on the battlefield. It can carry a 1,000kg warhead, big enough to be nuclear if the warhead is miniaturised enough. The Air Force version, which has also been deployed, has a range of 250km.

The Agni's longer 1,500km to 2,500km range has China in mind. But the programme does not yet appear to have gone beyond the "technology demonstrator" stage, so it is not yet in production.

INDIA'S STRATEGY MORE TESTS?

Delhi may be preparing way to sign treaty

By Peter Montagnon, Asia Editor, in London

Rarely can there have been such a determined gesture of defiance as India's announcement of two more nuclear tests just hours before President Clinton was due to impose sanctions for the three tests conducted on Monday.

"We have taken this step with a lot of thought, and this was not a political gimmick," said Atal Behari Vajpayee, the prime minister. "If we have to take a difficult route we will not shy away from it."

But if the new tests have raised the stakes in what has become a war of nerves between India and the rest of the world, they also appear to point to a possible way out of the crisis.

"What they're doing has really cleared the way for joining the Comprehensive Test Ban Treaty (CTBT)," said Sujit Dutta, visiting fellow at the US Institute of Peace in Washington. "If India is to join the CTBT, then it has to complete the tests."

India would then be following the route taken by both France and China of completing tests that would allow them to conduct computer simulations and maintain their deterrents before they signed the treaty.

Ultimately Pakistan, which has made little secret of its nuclear capability, should also be made to join the fold, believes Mr Dutta, whose main base is the Institute of Defence Studies in New Delhi.

Other analysts also argue that India may now come under intense pressure to sign the CTBT. But there are questions both about how seriously it wants to join and about whether its risky strategy will pay off.

Yesterday's announcement confirmed an end to "the planned series of tests," but did not explicitly exclude the possibility of a second series, and it talked only of India adhering to "some of the undertakings" of the CTBT.

Confidence would have been greater if India had been more explicit, especially since any concessions it makes now will look like bowing to outside pressure, said Gerald Segal of the International Institute for Strategic Studies in London.

Besides, there are risks that India could find itself seriously isolated. India sees the tests as a means of making the world take it seriously, said said Damon Bristow of the UK's Royal United Services Institute. "The question is what sort of recognition are they going to get?"

The nightmare scenario for India runs as follows, he says. China continues to respond in a responsible way which brings it closer to the US. Pakistan is persuaded to take the high moral ground and refrains from testing its own weapon. That also brings it closer to the US, as well as a large dollop of aid, leaving India well and truly out in the cold.

Yet the chances of Pakistan showing such forbearance must look slimmer after the second round of Indian tests while India also seems ready and willing to accept the sanctions that have now been imposed.

"The Indian government has done some careful calculations on what the sanctions mean," said Ghautam Sen of the London School of Economics. "They won't mean much in money terms."

The most serious impact seems likely to come from withdrawal of Eximbank guarantees on large infrastructure projects, especially in the power sector which, ironically, Mr Vajpayee's government has been keen to push.

A block on new lending by the International Monetary Fund and the World Bank matters less to India. It would matter much more to Pakistan if similar sanctions were applied in the event of it conducting a test. Pakistan has low foreign exchange reserves, high debt and is heavily dependent on IMF support.

The US must be hoping such considerations may deter Pakistan, though the domestic pressure on Nawaz Sharif, the prime minister, to flex his country's nuclear muscles will now be considerable.

Ultimately the best way out may indeed be to bring these countries into the fold of the CTBT. "This is an opportunity for India which everybody hopes it will seize," says Mr Segal.

ANTITRUST ACTION THE US JUSTICE DEPARTMENT MAY START GROUND-BREAKING LITIGATION TODAY EVEN THOUGH THE COMPANY'S ARGUMENTS HAVE FOUND NEW SUPPORT

Microsoft off one hook but sharpest barbs to come

By Louise Kehoe in San Francisco

For a company facing groundbreaking anti-trust litigation from the massed ranks of the Justice Department and about a quarter of the states of the union, Microsoft's spirits may be surprisingly high.

An appeals court ruling late on Tuesday favourable to the software company and the decision of one state attorney-general to pull back from the rush to sue have suggested that Microsoft's arguments are starting to be heard.

It also appears unlikely that legal action will force the world's biggest and best-known computer software company to delay the planned shipment of Windows 98, its new PC operating system program, to PC manufacturers tomorrow.

Late on Tuesday, an appeals court in Washington ruled that a lower court's order requiring Microsoft to offer its Internet Explorer browser software separately from its Windows 95 operating system does not apply to Windows 98.

Windows 95 is the most widely used PC program and Windows 98 is its successor.

"Whatever the United States's chances of winning permanent injunctive relief with respect to Windows 95...they appear very weak with respect to Windows 98," the three-judge panel ruled unanimously.

Moreover, the judges said an earlier antitrust settlement agreement should not be interpreted to preclude distribution of Windows 98. To do so would "put judges and juries in the unwelcome position of designing computers," the panel said, quoting case law.

This goes to the heart of Microsoft's argument that it must be allowed to continue to add new features to its operating system products, unfettered by government controls.

The company believes the government should not meddle with technology innovation and that to do so might undermine the success of the entire personal computer industry.

And Texas attorney-general Dan Morales could be about to agree. He said he would confer with the state's computer manufacturers "over the next few weeks" and "hear their concerns" before deciding whether to bring antitrust action against Microsoft.

Texas is home to Compaq Computer and Dell Computer, two of the world's largest PC manufacturers. Microsoft has argued that any action to delay Windows 98 could slow PC sales.

Nonetheless, the Justice Department and some states are expected to launch new lawsuits charging the company with exclusionary and predatory practices aimed at limiting competition.

The actions are "imminent", according to senior government sources, and may even come today.

The government's investigation is much broader than the legality of a single product. The lawsuit it is preparing is expected to shift the focus to allegations that the company has attempted to extend its "Windows monopoly" through contracts forcing PC manufacturers and internet service providers to give prominence to Microsoft products.

Also at issue is the software company's control over which internet services and software are prominently displayed when a PC is turned on.

All that will alter the fight substantially. For now, the rush to file with the goal of blocking the launch of Windows 98 seems futile. When PC manufacturers receive the "golden master" disks tomorrow, they will begin installing the software on their production lines.

If the government should try to get a court order barring further distribution of Windows 98, it will have to demonstrate that the harm to consumers as a result of Microsoft's "monopoly" product is greater than the direct damage to PC companies. The balance will tip much further in favour of Microsoft next month when it delivers Windows 98 to thousands of retailers and resellers worldwide.

Sun Microsystems, which on Tuesday asked a federal court to bar distribution of Windows 98 until the product is modified to include Sun's Java software – rather than an allegedly "altered" version of Java created by Microsoft – now also faces a similar battle.

Helms' bill seeks $100m aid for Cuba

By Stephen Fidler in Washington

Senator Jesse Helms, the architect of a controversial law which imposes US sanctions on companies trading in assets confiscated by Cuba, is today expected to propose legislation to provide a $100m US government humanitarian aid package for the island.

The proposal is to channel up to $100m of US government food aid to Cuba over four years, through non-governmental organisations such as Caritas, the Roman Catholic relief organisation in Cuba. If successful, the bill would also authorise direct humanitarian flights to deliver the aid.

The bill is being entitled Solidaridad by the Republican senator from North Carolina, who is chairman of the Senate foreign relations committee, in conscious imitation of the group that protested against Communist rule in Poland. Another bill, expected to be presented by Cuban-American legislators in the House, will also propose aid for Cuba but define more narrowly those entitled to receive it. The differences, according to a congressional aide, should be reconcilable in conference discussions.

The proposal was first aired in January by the Cuban American National Foundation (CANF), the most vociferous Cuban exile group in the US, and quickly backed by Mr Helms. However, it was immediately condemned by Cuba's President Fidel Castro, who said the help was being offered by people who "daily stick ever deeper the killer knife to impede our social and economic development".

However, the new bill's backers argue that the Cuban leader will lose whether he accepts the offer or not. If he declined it, he would be responsible for adding to the deprivation of Cubans, but if he accepted, it would strengthen the church and undermine his control.

The move reflects in part a changing political atmosphere in the US towards Cuba as various groups distance themselves from what has been described as a "long-distance civil war" between the Cuban exile community in the US and the Cuban leadership.

This follows the death last year of Jorge Mas Canosa, head of the CANF, and an increasing diversity of Cuban opinion in the US. US business groups have also sought an easing of the embargo. Staffers from Mr Helms's committee also visited Cuba in January.

Signifying the growing divergence of opinion among Cuban Americans, the CANF initiative was initially received unenthusiastically by the three Cuban-Americans in the House: Republicans Ileana Ros-Lehtinen and Lincoln Diaz-Balart of Florida and Robert Menendez, a Democrat from New Jersey. This reflected in part their suspicion about the role the church has played in Castro's Cuba.

Both propositions are said by some observers to be aimed at limiting any further moves to relax the embargo by the administration and keeping as much control of it in the hands of the Congress. "Helms and his people recognise that if they want to be continuing players in this, then they have to have some new ideas," said Peter Hakim of the InterAmerican Dialogue, a Washington think tank.

The Helms move follows a decision by the administration in March to ease some US sanctions against Cuba. This lifted the ban on remittances by Cuban-Americans to their families and friends in Cuba, widely ignored in practice, which limited the amount to $300 every three months. It also allowed direct flights to be resumed for certain purposes, and made it easier to send food and medicine to the island. An announcement is expected soon on exactly how the new regulations will work, the State Department said.

Gesture politics: Fidel Castro (left) condemned the aid proposed by Jesse Helms AP

Anti-Castro front in Miami shows signs of splintering

Death of Jorge Mas Canosa reveals dependency on political access organisation's leader enjoyed. **Henry Hamman reports**

Miami's politically powerful Cuban-American community – which dominates local politics and has shaped the US hardline anti-Castro foreign policy for decades – has long been regarded as a monolith, speaking largely through the Cuban American National Foundation (CANF) in support of a policy of isolation and confrontation with Cuba.

However, the organisation is under unprecedented strain following a confluence of events and the death of the foundation's powerful and charismatic leader, Jorge Mas Canosa.

Any splintering of Miami's hardline anti-Castro front would give Washington lawmakers and the Clinton administration an opportunity to remove or soften the Helms-Burton Act, which has riled the European Union and Canada.

The most recent sign that Washington is watching Miami developments closely was on May 7, when a subcommittee of the House of Representatives ways and means committee held a long-delayed hearing on a bill that would lift restrictions on food and medical sales to Cuba.

The hearing, condemned as one-sided by two Cuban-American members of the House, produced applause for a critical comment on the role of Miami's Cuban community in working for a free Cuba. Less than a year ago, such a rebuff would have been unthinkable but developments in the past eight months have revealed fissures in the Cuban-American community that are emboldening critics.

The papal visit to Cuba in January added a moral dimension to the debate over policy

The death of Mas last November revealed just how dependent the foundation was upon the unique political access he enjoyed.

No new leader has emerged with the ability to fill his role. This has been compounded by corruption and fraud charges in local government which has both tainted the Mas family name and produced infighting among local Cuban-American political leaders.

Mas' death came a month after the US Coast Guard stopped a cabin cruiser in October off the Puerto Rico coast and discovered a cache of weapons, including night sights and sniper rifles. Upon investigating, they found ties between both the vessel and the weapons to members of the CANF. One of the sniper weapons was registered to the foundation's president, Francisco Hernandez, and the boat belonged to a member of the executive board.

Four men have been charged with conspiring to kill President Fidel Castro of Cuba, and speculation abounds that Mr Hernandez or other ranking officials in the foundation may also face charges.

The papal visit to Cuba in January added a moral dimension to the debate over Cuba policy when Pope John Paul criticised the embargo for bringing suffering on the Cuban people. Seeking to deflect the pope's humanitarian concern, the CANF offered a proposal for limited humanitarian aid to Cuba, only to be rebuffed by Cuban-American members of the House of Representatives.

Among Miami Cubans who oppose the Cuban-American hard line, the change in climate has produced a new willingness to make that opposition public and even to sign petitions and lobby Congress. Until recently, taking a public position against the hard line was seen as political and social suicide in Miami. However, as yet no Cuban-American elected official has publicly broken with the traditional hardline policy.

One sign of a Washington thaw was the release of a controversial Pentagon study that reported: "At present, Cuba does not pose a significant military threat to the US or to other countries in the region."

Another concession was an acknowledgment that Cuba's biotechnology industry could produce biological weapons. But that industry also made news of a different sort when a multinational drug company announced that it wanted to begin tests in the US of a Cuban vaccine against meningitis. Were the vaccine eventually licensed for use in the US, it might save the lives of many children, but royalty payments to Cuba would punch a big hole in the US economic embargo.

NEWS DIGEST

CONSUMER PROTECTION

Clinton names committee to look into big mergers

President Bill Clinton has named a top level intra-agency committee to review the recent wave of corporate mergers, to ensure that consumers and competition do not suffer from the trend.

The committee will have its first meeting towards the end of the month. It will be headed by Gene Sperling, chairman of the White House National Economic Council, and include Robert Rubin, treasury secretary, Larry Summers, deputy treasury secretary, Janet Yellin, head of the Council of Economic Advisers, and William Daley, commerce secretary.

An administration official said Mr Clinton had written several notes to Mr Sperling about the subject. He said last week the mergers were probably inevitable but consumers must be protected.

The official said the group would not necessarily recommend that the president take any action to reverse the trend. "They will take a look and see whether we're increasing competition and improving American industry. There is not a presumption that you need to act."

Two US senators yesterday called on the heads of the Federal Communications Commission and the Justice Department's anti-trust division to perform an "extensive review" of SBC Communications' $61bn purchase of Ameritech Corporation, which would create the country's largest telephone company. **Nancy Dunne, Washington**

BRAZIL PRIVATISATION

Phone sale hits snag

The privatisation of Brazil's telephone network encountered another legal hurdle yesterday, when the government had to postpone, for the second time, a meeting to agree the restructuring of the network prior to its sale.

Analysts welcomed a later suggestion by President Fernando Henrique Cardoso that no limit be placed on foreign participation in the bidding consortia.

The delay casts further doubt on the timing of Latin America's biggest privatisation to date, expected to raise about $20bn. The government plans to issue tender documents on May 29 and accept bids on July 15, a schedule most analysts see as impossibly tight.

Shareholders in Telebrás, the holding company for the network in which the government has a controlling stake, were due to meet yesterday to rebundle the network into 12 operating companies: three regional fixed service operators, one long-distance and international operator, and eight cellular companies.

The meeting was postponed after injunctions granted by two district judges on the grounds that the break-up must first be approved in Congress. **Jonathan Wheatley, São Paulo**

BANK OF CANADA

No rate rises for six months

Canada's central bank indicated yesterday it was not planning further interest rate increases in the next six months, sending the Canadian dollar to a three-month low.

In its semi-annual monetary policy report, the Bank of Canada said monetary conditions were "broadly appropriate in the absence of further shocks".

The bank is predicting the economy will grow at a rate of 3.5 per cent through the middle of 1999, approaching full capacity next year. But it believes there is still time to tighten the monetary reins later this year or next year if economic growth remains strong.

The report is being read as a signal that Canada will not match US interest rate increases if the Federal Reserve raises rates this month or next. **Edward Alden, Toronto**

US RETAIL SALES

Rise points to steady growth

US retail sales rose by 0.5 per cent in April over March, while producer prices increased 0.2 per cent, providing further confirmation the US is continuing to enjoy steady growth without significant inflation.

Retail sales were boosted by a 1.6 per cent rise in purchases of building materials, as well as increases in food and car prices. Clothing sales rose 1.3 per cent, fuelled by improved consumer purchases over the Easter holiday. Spending at bars and restaurants rose 0.8 per cent.

The increase was largely the result of increases in tobacco prices as companies sought to raise income to fund a number of court settlements while preparing for possible tax increases being considered by Congress as part of a national tobacco settlement. **Mark Suzman, Washington**

SALEROOM

Christie's sale brings $61m

Christie's in New York sighed with relief on Tuesday night when its auction of 52 works of art by 20th century masters sold for $61.32m. Only seven lots were bought in and the total was comfortably within the pre-sale estimate.

The auction was a gamble. Christie's has decided to redraw artistic date lines. In the past it sold the best early 20th century artists with the top Impressionists. It is now splitting them up, consigning the Impressionists to the 19th century and disposing of artists like Picasso and Braque alongside later painters like Warhol and Rothko. The first 19th century auction last week was a disappointment, bringing in $35.6m, well below target, and with important paintings by Renoir failing to sell. Hence the need for Tuesday's auction to succeed.

The top price was the $5.39m paid by Abigail Asher, a New York dealer, for "Woman in a Plaid Dress" by Modigliani. The highlight was a $4.4m paid by the London dealer Desmond Corcoran for a Braque Fauve painting of an olive tree near Estaque, and the $3.63m which secured an untitled Rothko for Larry Gagosian, a New York dealer. **Antony Thorncroft, New York**

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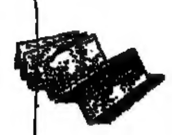
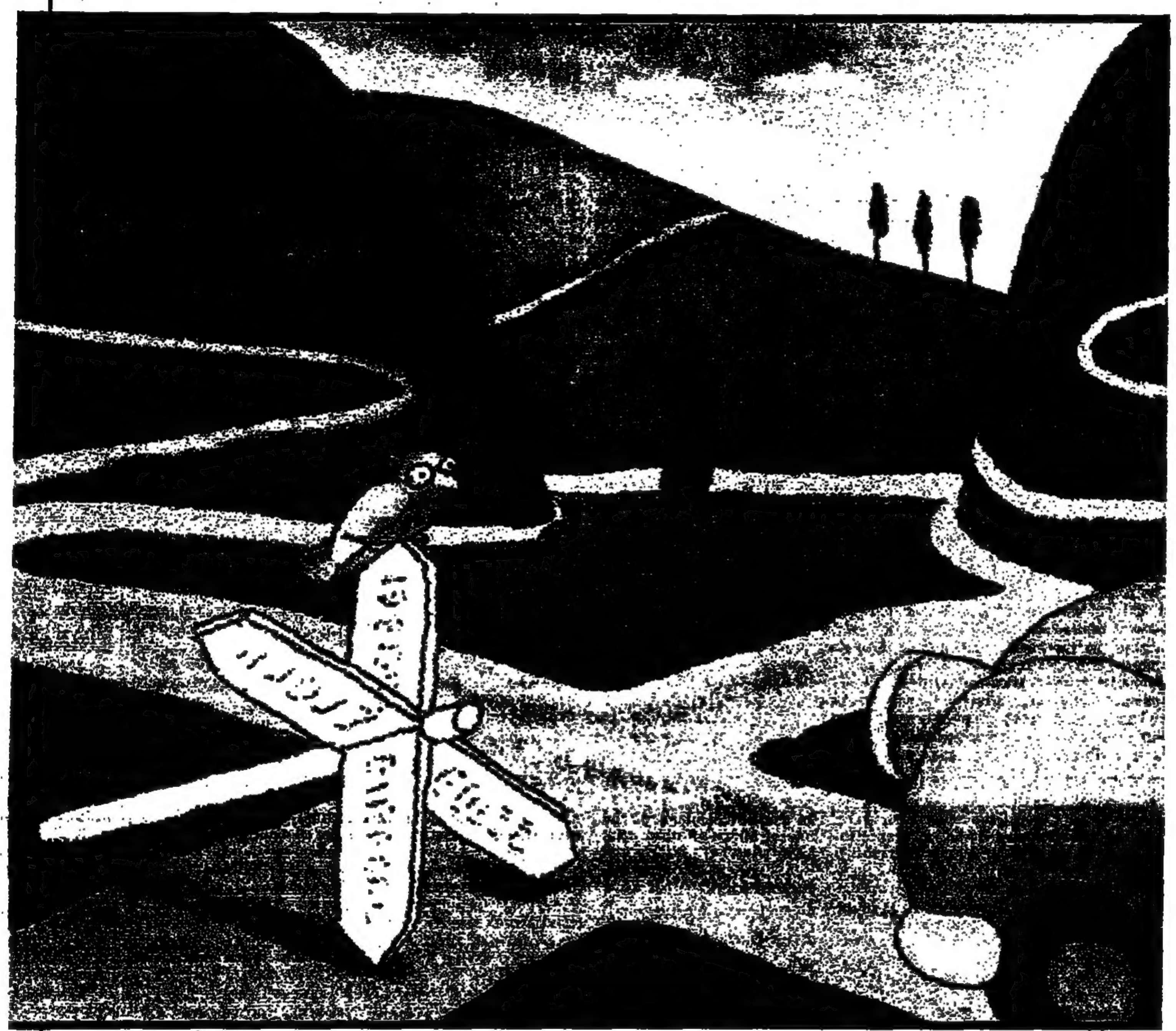


fig. 1
You have no map. Remember.

fig. 2
You lost your compass.

fig. 3
What good's a cellular phone if you don't know where you are?



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PARIBAS Thinking beyond banking

Wellcome Trust puts $184m into gene race

By Clive Cookson, Science Editor, in London

The race between academic and commercial interests to unravel the entire human genetic code took another twist last night when the UK-based Wellcome Trust, the world's largest charity, announced that it would spend an extra $184m on the project over the next seven years.

The trust's commitment, on behalf of the public sector, is a challenge to the commercial genomics venture announced in the US last weekend.

Perkin-Elmer, the scientific instrumentation company, said it would set up a new company with Craig Venter, president of The Institute for Genomic Research, "to substantially complete the sequencing of the human genome [all human DNA] within three years."

Wellcome said in a statement last night: "The Trust is concerned that commercial entities might file opportunistic patents on DNA sequences."

The trust is conducting an urgent review of the credibility and scope of gene patents. In a clear threat to Perkin-Elmer and other commercial organisations, Wellcome said it "is prepared to challenge such patents."

The Human Genome Project – a $3bn 15-year effort to spell out all 3bn chemical "letters" in human DNA – was started in 1990 in the public sector, with funding mainly from the US government. But during the 1990s the private sector moved in, led by Human Genome Sciences, a US biotechnology company.

There is now intense competition – not only between gene hunting companies but also between the private and academic sectors as a whole.

The private sector says the profit motive is accelerating the medical application of genetic information, while the academics, led by the Wellcome Trust, claim that companies are delaying progress by preventing the open release of information.

The trust's new commitment will bring its total spending on the Human Genome Project to £205m. The work is based at Wellcome's new Genome Campus in Cambridge, where DNA sequences are released freely on the internet as they are produced.

In the US, Dr Venter plans to use ultra-fast DNA sequencing machines developed by Perkin-Elmer, together with a new scientific strategy, to move ahead faster than the public sector genome project. The new company is expected to have a research budget of about $200m.

Although the data will be made publicly available after a delay, the company plans to build up a commercial database and to patent some genes.

Michael Morgan, who runs Wellcome's genomics programme, said Dr Venter's shotgun approach remained speculative and had not been proved to work. "At best it will give a quick and dirty version of the genome," he said.

Flu mist could replace jabs

By Victoria Griffith in Boston

In a finding that has significant implications for campaigns to reduce the indiscriminate use of antibiotics, a new nasal spray has reduced influenza-related ear infections in children by 98 per cent.

Results of a trial, funded by the National Institutes of Health, are published today in The New England Journal of Medicine.

Because ear infections are the main reason parents take children to the doctors, researchers say they are one of the main reasons for the over-use of antibiotics.

Antibiotics have no impact on viruses, but doctors usually hand them out anyway, under pressure from parents and in case the infection has been caused by bacteria. An educational campaign by the Centres for Disease Control (CDC) in Atlanta to reduce antibiotics prescription has fallen flat.

About 30 per cent of ear aches are caused by influenza complications.

The company that makes the flu mist, Aviron, says it will file for approval with the Food and Drug Administration by midsummer.

While protection against the influenza virus is already available through injection, most people do not get the shot, perhaps because it is unpleasant, and perhaps because it does not immunise against all forms of the disease.

There is evidence the nasal mist may provide superior immunity. That is because the spray uses a live, though weakened, virus, and goes directly to the throat, where influenza breeds. The injectable vaccine, on the other hand, uses dead viruses, which may provide less stimulation to the immune system.

Like the flu shot, the nasal spray would have to be administered annually, as the influenza virus mutates rapidly.

Zambia warned on human rights

By Our International Staff

International donors yesterday warned Zambia it needed to take "swift and decisive action" on alleged human rights violations, and called for more rapid progress in privatising remaining assets of the state-owned mining conglomerate.

Donors at the World Bank-chaired meeting in Paris pledged $530m to Zambia for this year, but delegates made clear support was linked to continued economic reforms and better governance.

Two earlier meetings had been called off due to donor anger over the policies of President Frederick Chiluba's government and the country's failure to reach a deal on the sale of Zambia Consolidated Copper Mines (ZCCM). Privatisation of ZCCM has been a condition of reopening aid.

Zambia had been seeking $300m in project aid and $289m in balance of payments support by donors. It also needs $70m for public service reform.

In a statement at the end of the two-day meeting, the bank "commended" the government for lifting the state of emergency imposed after an attempted coup in October 1997. But the statement called for an urgent response to allegations of brutal police interrogation of some suspected participants.

Kenneth Kaunda, the country's former president, is among those who have been held not in jail but confined to his home in Lusaka.

Delegates were told by Zambian officials an independent inquiry would be held into the allegations. Ms Edith Nawakwi, Zambia's finance minister, said reforms had led to two consecutive years of GDP growth: 6.5 per cent in 1996, and 3.5 per cent in 1997, despite a fall in the price of copper, Zambia's main export.

South African taxi drivers' dream of empowerment turns into a nightmare

The industry started out as a saviour but has become a killer, reports **Victor Mallet**

James Ngcoya, former president of the South African Black Taxi Association, once boasted that taxi owners were becoming "the spear and the shield of our people's economic struggle".

His organisation was in the vanguard of a remarkable expansion of the black middle class in Soweto and other townships as apartheid began to collapse in the 1980s.

Ferrying commuters by minibus taxi to and from city centres was one of the few ways in which black entrepreneurs could make money, and South Africa's budding black capitalists took full advantage of the opportunity.

Today, however, the dream of black advancement has turned sour for taxi drivers and commuters caught in an upsurge of gang warfare between rival taxi associations.

This week, soldiers and police were patrolling townships around the capital, Pretoria, after the deaths of five people in taxi-related violence since Sunday. More than 80 people have been killed around the country in such incidents this year.

We did get a saviour, says Meshack Khosa, research director at the Human Sciences Research Council in Pretoria, who has studied the taxi industry for a decade, but the saviour is becoming a killer as well.

Businessman Gugulethu Maqetuka, in a column in The Citizen newspaper this week, described getting into a taxi as tantamount to being in a war zone.

"The taxi industry, once mooted as the beacon of black economic empowerment, has turned into a horrible nightmare," he wrote.

A constantly shifting array of taxi associations – there are at least 1,200 in the country, including at least 100 in the Johannesburg area – fight for the most lucrative taxi routes and the best taxi ranks. Government officials and researchers say gang leaders routinely hire assassins, including unemployed former guerrillas of the African National Congress which came to power in 1994, to kill their rivals.

On Sunday, for example, a minibus taxi driver was killed and 10 others injured near Port St Johns in the Eastern Cape when gunmen attacked two vehicles with AK-47 assault rifles.

In the 1970s and 1980s, people were still using axes and knives and ordinary weapons, but in the 1990s they are using automatic weapons and highly-trained assassins, says Mr Khosa. It is very professional, he adds. They are more efficient in terms of eliminating their opponents.

The mayhem is not only a disappointment for those who saw the taxi industry as a symbol of success for black business. It also disrupts everyday life and the functioning of the economy by making it difficult for black commuters to go to work or reach the shops, especially when the authorities suspend the use of big taxi ranks in an attempt to stop the fighting.

Taxi-related violence has claimed over 80 lives this year

It is estimated that more than 2.5m South African travellers a day use the minibuses for commuting or for long-distance journeys, often standing by the road and using hand signals to indicate their destination to the driver, who will immediately stop with scant regard for other traffic.

There are more than 100,000 minibus taxis in operation, many of them unregistered and illegal; they use a tenth of the country's petrol and provide thousands of jobs for drivers and factory workers in the motor industry.

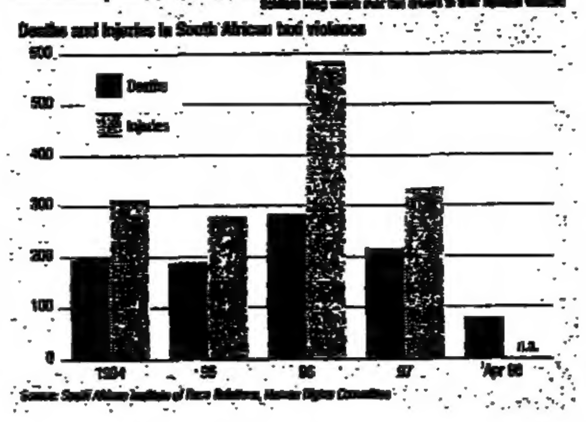
The roots of the violence lie in the 1980s. First, competition increased and profits fell as more taxi owners entered the business.

Then the white minority government, having strictly controlled black business for decades, rapidly liberalised taxi licensing in the face of protests from Sabta, the dominant taxi association at the time.

Such chaos ensued that some academics believe the liberalisation was a deliberate attempt to destabilise black communities. In addition to the fights over taxi routes, new conflicts emerged within the various associations and their affiliates which collected money from their members and which had therefore become important sources of power and patronage.

The local associations arrange ranks and organise queue marshals but the mother bodies do nothing except appropriate money and organise the violence, says Jackie Dugard, a senior researcher at the Community Agency for Social Inquiry. They all have hit squads.

Soldiers keep watch over taxi drivers in their minibus vehicles



Policemen and other officials soon decided they too wanted a share of the potentially profitable business, buying taxis and quickly becoming embroiled in taxi feuds, to the despair of those trying to regulate the industry and the violence.

"We have MPs who are owning taxis, we have policemen, we have departmental officials," says Dan Chauke, transport co-ordinator in the provincial government of Gauteng, the province around Johannesburg.

Commuters are urging the central government and the taxi associations to formulate a plan to stamp out the violence once and for all.

But taxi regulation is a power that has been devolved to the provinces, and not all of them have the means or the determination to tackle the well-armed gangsters who control much of the industry.

"The industry itself should rethink," says Mr Khosa. "It is self-destructing."

Fast-track authority 'key to FTAA talks'

By Guy de Jonquières

US President Bill Clinton needs to win "fast track" trade negotiating authority from Congress early next year if plans for a Free Trade Area of the Americas (FTAA) are to proceed on schedule, Canada's trade minister said yesterday.

Sergio Marchi, whose government will chair FTAA negotiations which open in Buenos Aires next month, said a further delay in obtaining fast track – which Mr Clinton failed to secure last year – would slow the 34-nation project.

"The question for all the countries around the table will be to gauge at what point... you absolutely need fast track, because no self-respecting nation will ever want, or should be expected, to negotiate twice," he said.

Mr Clinton had a "window of opportunity" early next year to fulfil his promise at last month's FTAA summit to renew his bid for fast track legislation, which obliges Congress to vote on trade agreements without amending them.

Congressional elections ruled out legislative action this year, and by late next year the US presidential election campaign would be under way, Mr Marchi said.

He believed Mr Clinton could win fast track, if he fought hard enough. He needed to overcome "inward-looking attitudes" in Congress and mobilise nationwide support for trade liberalisation and an internationalist US policy stance.

"Going into a new millennium, he can do that, because it is inconceivable that America should be looking inward at its belly button, rather than outward in terms of galvanising the international community," Mr Marchi said.

He said the FTAA and other regional arrangements complemented, and did not compete with, the multilateral trade system. World Trade Organisation ministers will celebrate the system's 50th anniversary at a meeting in Geneva next week, which Mr Clinton and other government leaders will attend.

The Canadian minister said the meeting, which is not due to take any big decisions, should be used to debate how the next stages of trade liberalisation should be tackled and to discuss institutional reform of the WTO.

Making the WTO more open and responsive to a broader constituency of interests was a priority, he said.

Mr Marchi, who is visiting London for summit meetings between leaders of Canada, Britain and the European Union, called for a more comprehensive transatlantic relationship, in which North American governments took a unified stance in dealings with Europe.

He said only the EU gained from current arrangements, under which it conducted separate political and economic dialogues with the US, Canada and Mexico.

Marchi: no self-respecting nation will want to negotiate twice

$220m uranium claim on Kazakhs

By Nancy Dunne in Washington

A Canadian minerals company and its US sales agent yesterday filed a suit in a Washington court requesting $220m in damages against the former Soviet republic of Kazakhstan for allegedly failing to honour an agreement permitting the export of uranium.

World Wide Minerals said it had invested $32m in a dilapidated uranium mine in northern Kazakhstan, employing thousands of workers and providing light and heat for the region in 1996-97. In July, Kazakhstan apparently changed its mind and refused to issue uranium export licences.

When World Wide stopped production, the government cancelled the contract. This caused Nuclear Fuel Resources of Denver to fail to deliver on a contract it had made when it promised delivery of uranium to Consumers Energy of Michigan.

Tom Evans Jr, a former congressman, now on World Wide's board, said Kazakhstan had "arrogantly ignored the need to respect the role of law".

While denying World Wide an export licence, he said the Kazakh government had granted one to Nukem, a German company, along with the exclusive rights to sell Kazakh uranium in the US.

The company said Kazakhstan acknowledged through official channels its obligation to provide compensation, but no specific offer of a settlement has been made.

This month the Kazakh government discussed the possible sale of a 20 per cent stake in Kazakhoil or a bond issue for the state-owned oil company. Mr Evans said Kazakhstan generally has treated big oil investors well. However, the government is reportedly considering revoking current licensing agreements under an oil industry review.

Brussels warns Israel on breach of trade treaty

By Judy Dempsey in Jerusalem

The European Commission yesterday formally warned Israel that it would act to stop imports from the occupied territories which benefit from trade privileges granted to Israel.

The Commission said the Israeli settlements in the West Bank and Gaza, in east Jerusalem and the Golan Heights "are not part of the State of Israel." Goods from those areas "are not Israeli and should not benefit from the preferential treatment granted by European Community-Israel agreement."

Israel's foreign ministry called the Commission's intervention "one-sided," adding it was an attempt to "prejudge Israel's borders before the outcome of final status negotiations" which will determine the future of the settlements and of Jerusalem and delineate its borders.

The Commission paper, drawn up by Manuel Marin, who is responsible for the south Mediterranean and Middle East region and other countries, is one of the most critical assessments to date of how Israel is violating the 1995 interim trade agreement with Brussels.

EU diplomats said it reflected the Commission's unwillingness to tolerate any longer a system in which Israel was breaking the rules of origin and hindering Palestinian exporters from trading with the EU. If all the violations are confirmed, the Commission said they should be "brought to an end".

It denied it would impose sanctions. But clearly, with the recent case of Israel mixing orange concentrate with Brazilian juice, European customs authorities could warn importers about possible fines if they were dealing with Israeli produce that contravened the rules of origin.

Israel, said the Commission, was violating the trade agreement in several ways. With processed food prepared and packed in Gaza, the Israeli exporting agent sticks a "Made in Israel" label on produce that then automatically benefits from preferential trade arrangements.

The paper also said Agrexco, Israel's exporting agency for non-citrus fruits, mixes Israeli and Palestinian strawberries and aubergines, then markets them under an Israeli label. Israel also imposes "draconian restrictions" on people and goods originating in or sent to Gaza through delays, higher cargo charges, and closures, it added.

Another paper, drawn up by Mario Monti, commissioner for customs and taxation, said it was starting negotiations on amending the rules of origin in the Mediterranean and Middle East region.

Georgia acts to help flour mills

By Selina Williams in Tbilisi, Georgia

Legislators in Georgia are considering controversial amendments to the tax laws on domestic flour in order to protect local mills.

The proposal to cut value-added tax on domestic flour from 20 per cent to around 7 per cent has been criticised as a protectionist measure to keep Georgia's large and unprofitable bread industry afloat at the expense of foreign competition.

The Italian company Grandi Molini, which set up CaucasGrain – a joint venture in Georgia to import flour to the region in 1996, said the powerful bread and milling lobby was destroying competition in the flour market, where import taxes and VAT already total 34.7 per cent. As a result, Grandi Molini has decided to invest in projects in neighbouring Armenia instead.

"We no longer consider that Georgia is ready for serious industrial development," said Antonio Costato, a manager from Grandi Molini. "It's just not a transparent market – there's no spirit of competition here and the powerful lobby groups in every sector won't allow it," he said.

Georgia's large bread industry has been suffering from competition by Grandi Molini's cheaper imports as well as flour smuggled in from Turkey. The country's 16 large mills and numerous small ones are struggling to survive even though they are working at only 15 per cent of capacity.

"There are many special interest groups in Georgia that have deep roots within the bureaucracy and control many sectors of the economy," said a prominent local legal and business consultant. "It's proven to be a perfect system that serves its own needs and is very difficult to break."

NEWS DIGEST

CHINESE POTASH PRODUCTION

Israeli manufacturer to build $450m plant

Dead Sea Works (DSW), the Israeli chemicals manufacturer, yesterday signed a memorandum of understanding with China to build a $450m potash plant on a salt lake desert in Qinghai province, north-western China. The deal was signed with the Chinese Ministry of Mining and Mingda, the Chinese partner for the venture. According to DSW, the Chinese government will hold two-thirds of the project and DSW the remainder along with the Eisenberg group.

The Eisenberg group spent seven years negotiating the deal through United Development, a company that specialises in Israeli-China trade and is owned by the family of the late Shoul Eisenberg, the Israeli billionaire. Today, the family also controls Israel Chemicals, DSW's parent company.

The Qinghai facility will employ 1,400 workers and produce 800,000 tonnes of potash a year for China's agricultural sector. It will use an energy-efficient manufacturing technology that DSW has been using for 20 years at its facility on the mineral-rich Dead Sea. The joint venture – DSW's first outside Israel – will help China meet its growing potash needs, estimated to be climbing from 3.5m tonnes a year to 5m tonnes by 2000. China chemical officials estimate about 60 per cent of the total is imported. **Avi Machlis, Jerusalem**

PACIFIC CABLE

Net demand drives new link

Exploding demand for Internet transmission capacity is one of the reasons for plans to construct Pacific Crossing 1, a 21,000km undersea cable linking the UK and Japan.

The contract for the $1.2bn cable has been won by Tyco Submarine Systems, formerly US carrier AT&T's underwater cable business. PC-1 is owned by Global Crossing, Marubeni and Kokusai Denshin Denwa – the first Pacific undersea cable that is not owned by a telecommunications group.

Because the owners will not be in competition with their customers, it is thought they will be able to offer lower prices than for cables owned by telecoms operators.

The cable will carry voice and data traffic between the two continents at 80bn bits of information a second. It is scheduled to be in service by July 2000. **Alan Cane, London**

CAUCASUS OIL ROUTE

Key pipeline beyond repair

Completion of a pipeline to carry oil from Azerbaijan to the Black Sea port of Supsa in Georgia will be delayed after engineers discovered the line was mostly unrepairable, it was revealed yesterday. "About 90 per cent of the entire line in Georgia needs to be replaced," said Dennis Stuart, vice president and resident manager of Georgian Pipeline Company – sister company of the Azerbaijan International Operating Company. Last year engineers discovered that the section of the line in Azerbaijan was entirely unrepairable. Replacing 90 per cent of the line in Georgia and the entire stretch in Azerbaijan will push the projected cost up to $590m from $315m, Mr Stuart said. But the pipeline, due to be completed by the end of this year, will not be delayed by more than a few weeks, he said. The initial capacity of the Baku-Supsa pipeline, also known as the western route, will be 115,000 barrels per day of Caspian Sea crude, but can be doubled if more pumping stations are added. **Selina Williams, Tbilisi, Georgia**

Fears grow of new round of turmoil as markets tumble

By John Ridding in Hong Kong

Indonesia's deepening political crisis and growing doubts about regional economic recovery shook Asian markets yesterday, fuelling fears of a new round of financial turmoil in the region.

The stock market in Indonesia closed 6.6 per cent down, while Singapore fell 4.9 per cent. Most other regional markets also lost ground, although Seoul and Tokyo finished higher. Hong Kong was hit hard, with the benchmark Hang Seng index falling 3.8 per cent to close below 9,500.

Hong Kong's decline was fuelled by fears of a speculative attack against its currency, which has so far resisted the wave of devaluations in the region. Money market interest rates rose sharply in defence of the Hong Kong dollar, with the three-month rate climbing from 7.75 per cent on Tuesday to 8.75 per cent.

"We are clearly back in a nasty phase," said Pauline Gately, regional strategist at Deutsche Morgan Grenfell. "It is possible that markets will move back to their January lows, although currencies may not be hit in the same spectacular fashion."

Investment analysts blamed investors' anxieties on increased violence in Indonesia, fears of a Chinese devaluation, economic setbacks in Korea and continued weakness in Japan. "It is a pretty horrible cocktail," said the senior analyst at one US investment bank. "There is plenty of scope for more nasty shocks, and not much hope of pleasant surprises."

The deaths of student demonstrators in Indonesia sent the Jakarta stock market down more than 8 per cent, while the rupiah plunged to 10,400 to the US dollar, compared with 9,250 on Tuesday. Fund managers said the violence threatened the disbursement of the IMF rescue package and risked protracted instability.

Currency markets were also unsettled by the rise in the US dollar to more than Y134. Although the US currency retreated slightly, the weakness of the yen prompted a sharp fall in the Taiwan dollar, which closed at NT$33.437 against the US dollar, compared with Tuesday's NT$33.324 close.

The Australian dollar fell to a 12-year low of US$0.6287, driven down by the Asian contagion, a day after the government unveiled the budget. John Howard, prime minister, said the movement of the dollar was unrelated to the budget on Tuesday.

The Hong Kong Monetary Authority, the territory's de facto central bank, denied rumours it had asked banks not to offer forward foreign exchange contracts in a move to defend the currency peg. But reports that hedge funds had accumulated positions against the Hong Kong dollar added to unease, pushing interest rates higher and triggering a fall in property and banking shares.

"There are signs of pressure again," said Ms Gately. "But I still feel the peg will hold because the options are too nasty." Supported by higher interest rates, the Hong Kong dollar strengthened from HK$7.7493 to the US dollar late on Tuesday to HK$7.7465.

After a rally in many regional markets earlier this year, sentiment has been hit by rising economic problems in some of the crisis-hit countries and fading hopes that Japan might drive regional recovery.

"The earnings outlook for corporate Asia is dreadful," said Colin Bradbury, head of equity sales at Jardine Fleming.

Currencies, Page 27; World Stock Markets, Page 38

China reports a sharp fall in new export orders

By James Kynge in Beijing

Chinese trade officials said yesterday that new orders for China's exports have fallen sharply, reinforcing a fear that one of the economy's main growth engines may sputter later this year.

"The Asian crisis is now having a big effect on our exports," said one trade ministry official, who declined to be named. "New orders declined significantly in the first four months."

The bleak assessment came after the General Administration of Customs announced that exports grew 11.6 per cent in the January to April period, down 15.3 percentage points from the same period a year earlier. The lowest monthly growth rate of 7.9 per cent was posted in April.

Imports climbed 3.1 per cent in the first four months and China's trade surplus was US$14.9bn over the four months, compared with US$10.29bn.

A belief among some economists that China could remain relatively insulated from the impact of Asia's crisis was undermined by the latest data, economists said. Price competition from south-east Asian exporters that have benefited from sharp currency devaluations was starting to intensify, officials said.

"Our goods used to be cheaper than Thai or Malaysian exports. Now many of them they have become between 5 and 10 per cent more expensive," said one trade ministry official. "But even though our goods are now relatively expensive, their quality has not improved."

New orders from some Asian countries, especially South Korea but also – and most disturbingly – Japan, have dropped. Shandong province, which faces Korea across the Yellow Sea, has made an internal prediction that its exports this year may fall by about half. So far the province has improved on this forecast, mainly through faster sales to Europe and the US.

China's exports to Europe and the US climbed 20.6 per cent and 29.7 per cent respectively in the first four months. To Japan they fell 3.1 per cent and to South Korea they plunged 24.5 per cent.

Officials said that China was considering raising tax rebates and export credit facilities but continued to rule out a devaluation of the renminbi. "Nobody is talking about a devaluation because we have been told by our top leaders that this is out of the question," said one trade ministry official.

The gloomy outlook for trade coincides with signs that deflationary pressures are gaining pace. The retail price index fell 2.1 per cent in April, reinforcing anecdotal evidence of competitive price cuts to retain market share in an oversupplied market. Prices of grain, feed grain, electronics such as computers and television sets, and commodities such as coal are falling because of oversupply.

Such market conditions, coupled with a freeze on new bank loans from many ailing state owned enterprises, are inhibiting production and raising serious doubts over whether China can achieve its target of 8 per cent growth this year. It grew at an annual rate of 7.2 per cent in the first quarter.

Hong Kong: 'the length of the crisis will determine its depth'

The duration of the economic downturn poses a growing threat to the territory's resilience, writes John Ridding

Time is ticking against Hong Kong. For while a series of financial market shocks since last October have been alarming, it is the duration of the downturn and the steady rise in collateral damage that now cause the real worry.

Indonesia's agonies and Japan's continued decline have prompted a new bout of anxiety, prompting a rise yesterday in Hong Kong's money market interest rates and fears of another assault on the territory's currency peg to the US dollar. The benchmark Hang Seng index, which fell 3.7 per cent, has lost 20 per cent since its high in March.

But these latest woes have merely underlined the protracted nature of the crisis. Every month of slumping demand and high interest rates squeezes business, chips away at confidence and tests the territory's resilience.

"The length will determine the depth of this crisis," said Dong Tao, senior regional economist at Credit Suisse First Boston.

Apart from Japan and Indonesia, he said, the gloomy cycle is fuelled by China's flagging economy and worries over interest rate rises – from the US to Europe. The big question in Hong Kong is whether the downward spiral stops before it wreaks structural damage in the banking and property sectors – the twin pillars of the economy.

Recent statistics and company announcements reveal rising casualties. Wing On and Maria's Bakery became the latest retail victims of the downturn, the first cutting staff, the second closing down. Cathay Pacific, which has been clobbered by the collapse in tourism and regional business travel, reported that revenues for March were 25 per cent below budget. "As with previous months, the passenger revenue situation was dismal," the airline said.

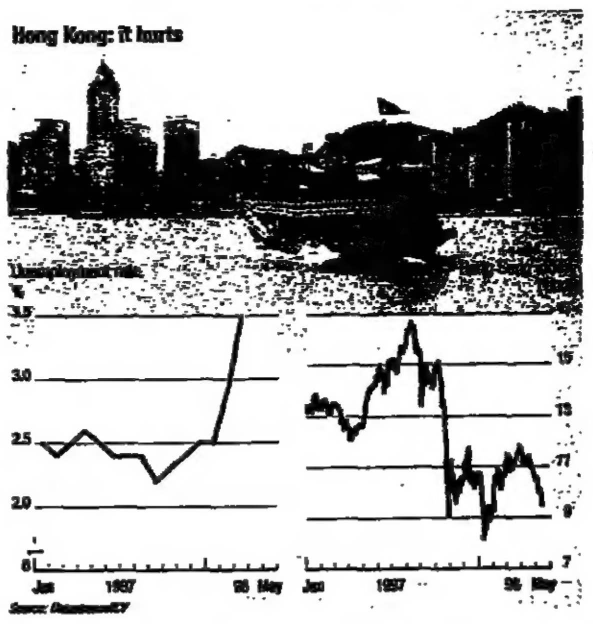
Tourism, along with consumption and retail, was partly to blame for the sharp fall in growth in the fourth quarter of last year. The year-on-year rise in gross domestic product of 2.7 per cent for the period, compared with rates of about 6 per cent for preceding quarters, was described as "a distinct setback" when announced last week.

Donald Tsang, financial secretary, is sticking to his forecast of 3.5 per cent growth for the year. But it is a lonely prediction. Santander Investment, ING Barings and J.P. Morgan are among a growing number of banks expecting growth will fall from 5.3 per cent in 1997 to below 2 per cent this year. Growth of below 2 per cent would be the worst performance since 1985.

Hedge funds are also betting on further pain, with the US-based Tiger fund reported to be buying up to US$1bn of interest rate swaps last month in anticipation of a rise in rates.

Even bears acknowledge Hong Kong's relative strengths, however. Dong Tao at CSFB said the banking system should be able to accommodate a further 15 per cent fall in property prices without structural risks. His assumption that non-performing loans will rise to between 5.5 per cent and 6 per cent of total loans is pessimistic by industry standards. But it is not enough, he said, to turn a profitability problem into an issue of solvency.

Hong Kong: it hurts



Source: Datastream/ICV

Behind such predictions lie the robust state of Hong Kong's banks and its developers. Problem assets at the end of last September were just 1.83 per cent of the total and capital adequacy ratios are generally in double digits.

While banks' total property exposure is a relatively high 44 per cent, past downturns reveal a high degree of resilience to default.

"Prices might fall a bit further, but we are near the bottom and the developers are all pretty strong," said Vincent Lo, chairman of Shui On, the construction and property group. He viewed the fall in asset prices, as a painful but necessary correction. "Hong Kong was just too expensive," he said.

But while rapid adjustment is needed to reduce costs and close the gap with devalued regional rivals, Hong Kong's interest-sensitive economy and its dependence on property presents a tricky balance between competitiveness and crisis.

That balance could be upset in a number of ways, from a correction on Wall Street to a further deterioration in Japan. Fading confidence at home could also confound predictions for stabilisation in the property market. The value of property transactions fell by 69 per cent in April, and the number of transactions dropped by 56 per cent.

With rising unemployment casting an ever darker shadow and reaching into professional sectors previously insulated from its effects, forecasting the bottom is a hazardous business. The government said this year's budget and its infrastructure programme will ease the pain, claiming that rail projects alone will create 16,000 jobs.

But that will take time – which is not on Hong Kong's side. "If companies can see through the downturn then they can maybe hold on," said Dong Tao. "But if we don't see signals of improvement in the second half then things might get very bad."

Thailand's bank governor poised for intervention

By Ted Bardacke in Bangkok

Chatumongkol Sonakul, Thailand's new central bank governor, said yesterday the government was ready to intervene in a number of beleaguered finance companies whose capital raising plans appear to be failing.

A number of Thailand's remaining 35 finance companies have suffered deposit runs in recent days after one large company, Nava Finance, announced that its capital raising plan had failed and another company, Union Asia Finance, was abandoned by its parent company, Bangkok Bank. Finance sector shares fell 3.9 per cent on the Thai stock market yesterday.

Since Thailand's agreement with the International Monetary Fund, most finance companies have been required to raise capital to make provision for high levels of non-performing loans.

But Mr Chatumongkol said the ailing companies would not be closed like 56 other finance companies shut last year because the government guarantee on all financial institution deposits – a guarantee the governor said he would like to eliminate next year – meant liquidating the companies would be too expensive. Instead the central bank was likely to nationalise any troubled institutions after a write-off of shareholder equity – similar to what was done with four ailing commercial banks earlier this year.

Mr Chatumongkol also came out as a hawk on inflation and the baht amid market talk that Thailand needs a dose of monetary expansion to increase liquidity and jumpstart the economy.

"We are rather worried about inflation. Higher inflation would push up interest rates, which would bring its own problems," said the new governor. "A stable baht at 38 (per US dollar) is probably a good rate to promote fast economic recovery. Much stronger and it would affect our competitiveness. Much weaker, we would have to worry about our (foreign) debt problem again," he added. On structural reforms at the central bank, which has been widely blamed for mismanaging the country into economic crisis, Mr Chatumongkol said he would crack down on wrongdoing by creating a separate litigation department.

"The examination of the operations of financial institutions is quite satisfactory in uncovering irregularities. However, shortfalls mostly occur after the examination procedures, when appropriate remedial actions have not been taken."

Mr Chatumongkol also announced an interim unit specifically responsible for addressing liquidity needs of exporters, who the governor said were the key to restoring growth to the economy. He also proposed a monetary policy committee to set interest rates and supervise monetary affairs in a structured manner.

Suharto hurries home to find fewer friends

By Sander Thoenes in Jakarta

President Suharto last week left Indonesia for his first trip abroad in six months. It was an attempt to show the world that he was in full control of the country and could afford to leave and trust the military with maintaining order.

But Mr Suharto will rush back today, one day early, from a G15 meeting in Cairo to find his capital rocked by violent riots and many of his people wishing he had never come back. His trusted military killed six students and at least one other Indonesian in his absence, and the mayhem this triggered yesterday is unlikely to be the last.

A masked protester flees after spraying graffiti reading: 'Suharto should die' near the Tisakti University in Jakarta — Reuters

Foreign media, he has said, had exaggerated the scattered student protests and last week's rioting in Medan. His ministers tried to assure foreign investors that the worst had passed and people would adjust to the sudden price rises last week that had sparked the violence.

Mr Suharto's soldiers have seen worse riots – in 1996 – but yesterday they managed to protect shopping malls and clear most big thoroughfares without serious bloodshed. They obeyed orders and were unforgiving to the poor who had emerged from the nearby slums to join the campus protests. But at time soldiers and police were openly sympathetic to the students.

If the army is still on board with Mr Suharto, a growing number of the ruling elite is abandoning ship. Former ministers and allies of the president called for his removal yesterday and some tried to piggy-back on the student movement to position themselves for a place in a new regime, although none has yet garnered a groundswell of support.

The police were remarkably restrained yesterday, leaving looters free to ransack small shops, and it is far from clear how much blood the soldiers are willing to shed to keep their president in power.

"Sooner or later the penny is going to drop to them that stability will never return as long as Suharto is there," said Lance Castle, a lecturer of sociology at a university in Yogyakarta.

Moreover, the popular outcry over Tuesday's killings raise the question whether any amount of blood could scare his people back into submission.

"It will be like a boomerang," said Aji, an unemployed leather worker preparing to join one of at least four student protests in that city alone. "The more violent the army gets, the more violence they will get back from the people."

It is still unclear who ordered the police or military to shoot from afar at students who were already retreating peacefully to their campus. Some believe senior generals are eager to undermine the power of Mr Suharto or his chief commander, General Wiranto. But the president may well have judged his trip to Cairo a convenient moment to order a military crackdown that could not be blamed on him if it were to backfire.

But it did backfire. And students appear more determined than ever to keep up protests and launch a bigger campaign next week. "They've got the bit between their teeth," said David Reeves, an academic in Yogyakarta.

In a country where the media have been tightly controlled for decades, Mr Suharto should be shocked to find, upon his return, that even the television stations that are owned by his children have spent the past two days reporting details of the killings and the riots.

He may not be able to go abroad again soon – at least not voluntarily.

Pakistan power companies face UK auditors

By Farhan Bokhari in Islamabad

The Pakistan government has hired "forensic auditors" from the UK to help in investigations into the financial affairs of the country's private power projects.

The decision is apparently motivated by concerns among senior officials over growing allegations that a recent campaign to investigate alleged corruption in the power projects has become one-sided. Critics say that the effort is driven by a commitment to reverse the achievements of the previous government, which is now in opposition. The auditors are expected to arrive within a week.

Share prices on the Karachi stock exchange, the main stock market, have weakened since an announcement at the weekend by Nawaz Sharif, the prime minister, that nine of the 19 private power companies had agreed to cut their tariffs.

The companies were urged by the government for weeks to cut what it says are exorbitant returns promised under a 1994 investment policy for the power sector, launched by Benazir Bhutto, then prime minister. Analysts said the campaign in the power sector could hurt investor sentiment because it involved a change in the conditions of an investment after it was made.

Khalid Anwar, the law minister, said the auditors from the UK "will be given access to records of independent power projects (IPPs) and will be asked to carry out in-depth investigations. If wrong-doing is found, people will be dealt with severely." Mr Anwar said that the decision reflected a commitment to a "transparent" investigation.

Other officials said that the government would give the power companies the opportunity to make voluntary tariff cuts, even if the auditors trace evidence of corruption.

A number of foreign banks and lenders are closely monitoring the outcome of the dispute. More than 50 foreign banks and multilateral institutions such as the World Bank are exposed to the debt raised by the power companies to set up businesses in Pakistan.

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NORTHERN IRELAND PROTESTANT ORANGE ORDER SAYS AGREEMENT DOES NOT OFFER PROSPECT OF END TO 'TROUBLES'

Hardliners scorn Blair's peace appeal

By John Murray Brown in Belfast

The hardline Protestant Orange Order yesterday refused to endorse the Northern Ireland peace deal despite a last-ditch attempt by the Tony Blair, the UK prime minister, to win over its leaders.

The organisation – which has about 50,000 members in branches in Ireland, Scotland and north America – said it had given careful consideration to the agreement but could not back it because it did not believe the deal offered a real prospect of peace.

The setback for the government came as anti-republican unionists demanded fresh guarantees from Mr Blair that Sinn Féin would not be allowed to join a future government for the region unless the IRA, its military wing, "decommissioned" its arms.

David Trimble, the Ulster Unionist leader, told the House of Commons that there was widespread unionist concern that Sinn Féin would "take the benefits of inclusion in the assembly and prisoner releases without accepting the matching obligations to show that there is a genuine peace, by their actions including decommissioning".

His concerns were echoed in the Republic of Ireland, where Bertie Ahern, the prime minister, said the unionist community in the North had a "real fear" of sharing power with people who were, and might still be, associated with violence. He called on the IRA to declare that its war was over.

He was responding to a comment in the Dáil, the republic's parliament, by former prime minister John Bruton, who spoke of "the need for the removal of ambiguity on this subject". Mr Bruton, leader of the Fine Gael opposition party, said unionist supporters of a Yes vote in next week's referendum on the peace deal wanted "a clear statement from the IRA that the war is over for good".

Simultaneous referendums are being held in the republic and Northern Ireland on May 22.

It emerged yesterday that Mr Blair had written to the Orange Order in an effort to persuade its leaders to back the deal.

Mr Blair warned that, unless there was decommissioning by the IRA, "the political consensus that produced the Good Friday peace agreement could fall apart with the serious consequences that could follow for Northern Ireland".

The hardline Democratic Unionist party said the Orange Order was making "a brave, courageous and correct decision in not supporting the accord".

The Orange Order decision was made as the UK government shelved plans for a memorial to mark the 3,600 killed during the Northern Ireland "Troubles", opting instead to appoint Adam Ingram, the Northern Ireland security minister, as "minister of victims".

Jailed soldiers' group sees minister

Campaigners for the release of two British soldiers serving life sentences in Northern Ireland for murdering a man while on duty yesterday met Dr John Reid, the UK's armed forces minister. James Fisher and Mark Wright, both serving with the Scots Guards, were jailed for the shooting of Paul McBride, 18, while on foot patrol in Belfast, the Northern Ireland capital, in 1992.

General Murray Naylor, campaign chairman, said after the meeting: "As Scottish Guardsmen we are concerned that two members of our regiment should still be held in prison nearly six years after the incident." Dr Reid said the length of the prison term was a matter for Mo Mowlam, chief Northern Ireland minister.

Central bank indicates rate cut less likely

By Robert Chote and Richard Adams

The Bank of England, the UK central bank indicated yesterday that it may not cut interest rates as quickly as financial markets expect, as official figures showed a sharp jump in factory workers' earnings.

Annual earnings growth in the supposedly struggling manufacturing sector rose sharply in the year to the first quarter. Earnings growth for the whole economy rose to 4.9 per cent, above the 4.5 per cent that the Bank believes consistent with the government's inflation target.

"Firms really do have to ask themselves whether they can justify these increases because the danger is that today's pay increase could become tomorrow's mortgage increase," said Andrew Smith, employment minister.

Separate figures showed unemployment falling again. The proportion of the workforce jobless and actively seeking work was 6.4 per cent in the first quarter, a fall of 0.1 of a percentage point from the last quarter of 1997. The labour market data rekindled fears that base rates may not yet have peaked, even though the Bank was less pessimistic about inflation in its latest quarterly report. This pushed sterling back above DM2.90.

The Bank expects underlying inflation – which excludes mortgage interest payments – to rise to 3 per cent temporarily before dropping below the government's 2.5 per cent target later this year. There is a 55 per cent chance that inflation will be below target in two years, but it will be rising then as the impact of sterling's strength recedes.

The report said that inflation would be rising even more strongly in two years if the Bank cut interest rates this year and next.

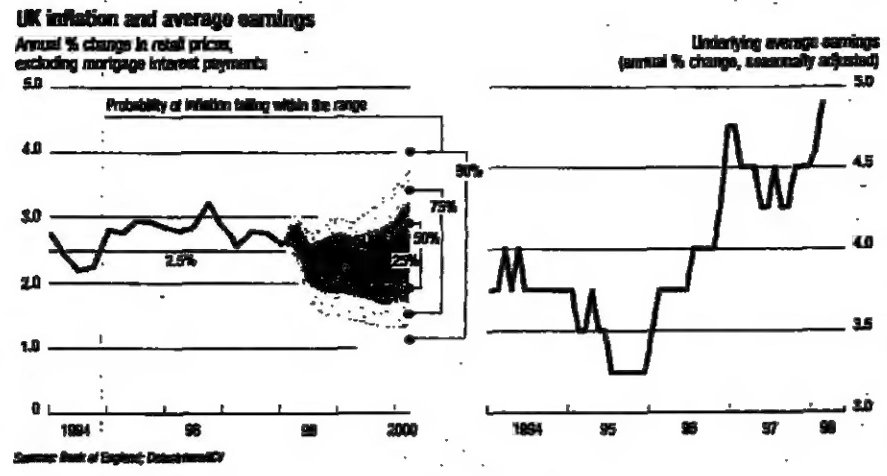
The Bank has reduced its inflation forecast since February because economic activity is weaker than expected, sterling has been stronger and inflation expectations have been subdued.

Mervyn King, the Bank's chief economist, emphasised that the jump in earnings growth had not been expected when the Inflation Report forecast was drawn up.

The Inflation Report also fails to take sterling's recent weakness into account. Mr King said that if this persisted the outlook would have to be reassessed. The Bank also warned that the forthcoming minimum wage could put upward pressure on inflation and interest rates, sparking a hostile reaction from trade unions.

"There is no evidence that the minimum wage will fuel inflation," said Rodney Bickerstaffe, general secretary of the Unison public services union. He said the Bank had kept quiet about the inflationary threat from City bonuses and boardroom pay deals.

Samuel Brittan, Page 14
Editorial Comment, Page 15
Lex, Page 16
Currencies, Page 27



Bonuses cause big rise in earnings

Big annual bonuses paid out by employers in March were behind the sharp increase in the latest official earnings figures, published yesterday, Richard Adams writes. Average earnings in the three months to March increased at an annual rate of 4.9 per cent, the Office for National Statistics said. The increase was well above the previous rise of 4.6 per cent, which was revised up from the original 4.5 per cent announced last month. The rise in public sector earnings was stable at 2.6 per cent, but private sector earnings increased by 5.6 per cent.

"Private sector earnings growth gives serious cause for concern," the Treasury said yesterday. Much of the private sector increase came from big bonus payments, especially in the chemical, food and tobacco manufacturing sectors – and the financial services sector.

Airline fails to halt rival's launch

By John Mason, Law Courts Correspondent

EasyJet, the cheap fare airline, yesterday won permission to continue its London court action against Go, its low-cost rival operated by British Airways.

But it lost its attempt to win an injunction to delay the start of Go's operations next week, with flights from London Stansted to Rome, Milan and Copenhagen.

EasyJet had asked the High Court for the injunction because it alleged BA's guaranteeing of leasing finance to enable Go to buy eight Boeing 737 aircraft amounted to a breach of European Union competition law. EasyJet claimed the subsidies were a possible breach of the Treaty of Rome, with BA abusing its dominant market position to stifle competition.

BA had counter-argued that there was nothing inherently unlawful in parent companies subsidising subsidiary companies.

The judge ruled that both sides had an arguable case about whether BA was abusing its market position and its possible effect on EU trade. He said the case should be settled at a full trial.

He dismissed easyJet's application for an injunction, saying that Go's launch did not pose an immediate threat to easyJet's survival.

● National Air Traffic Services (Nats) will have difficulty opening its long-delayed new control centre by the turn of the century even though most of its computer system is working, our Aerospace Correspondent writes.

Bill Semple, Nats chief executive, said yesterday the opening of the centre at Swanwick in southern England would be delayed further if the government acted on a recent House of Commons committee recommendation and ordered an audit of the system.

CRIME INSIDE COMPANIES E & Y REPORT SAYS OFFENDERS ARE OFTEN EMPLOYEES WHO SET UP SYSTEMS

Managers 'commit half of worst frauds'

By John Mason in London

Half of the worst frauds suffered by big companies are committed by their own management, according to a survey of leading companies and public bodies in 32 countries by Ernst & Young, the accountancy firm.

It says poor internal controls and directors who fail to understand how their businesses work are the main reasons for managers and other long-serving staff being responsible for most losses. Fraud by all staff accounts for 84 per cent of the total, says the report, carried out every two years.

Sarah Evans, a partner with E & Y's fraud group, said: "The offenders are often employees who set up control systems in the first place. They know where the loopholes are when directors don't understand their own businesses sufficiently and fail to update controls adequately."

The survey shows that more than half have been victims of fraud in the past year. The bulk of offences involved theft of cash and purchasing frauds in which, for example, employees received kickbacks for placing orders. The "worst case" frauds totalled $628m last year, of which only $85m was recovered. Some 28 organisations had each lost more than $25m from fraud in the last five years.

Areas in which companies are failing to guard against fraud include:

● Lack of knowledge of the workings of remote sites and overseas operations.

● Poor understanding by directors of electronic communications and information technology.

● Communication of fraud-reporting policies to staff. More than half the companies said they were opposed to "hotlines" to enable staff to report fraud.

The widely-held view that banks and financial services were the worst-affected sector was wrong because more than 60 per cent of frauds involving more than $1m occurred in other sectors.

● British embassies in Moscow, Paris and Washington are among those most at risk from fraud, according to a risk analysis conducted by the UK government's Foreign Office, George Parker writes. The department has established an "early warning system" following revelations of irregular payments at the British embassy in Jordan.

There has also been criticism of accounting procedures by the House of Commons public accounts committee. It was told that the list of embassies most at risk from fraud was based on issues such as income and expenditure, the number of locally recruited staff and the amount of financially sensitive work, such as immigration. The top 20 posts, in descending order of assessed risk, are Islamabad, Lagos, New Delhi, Dhaka, Moscow, Bombay, Beijing, Bangkok, Cairo, Amman, Karachi, Paris, Washington, Brussels, Tehran, Nairobi, Istanbul, Accra, New York and Jakarta.

WEAPONS PROCUREMENT SPENDING WATCHDOG SAYS PROJECTS ARE ON AVERAGE 3 YEARS LATE

Biggest defence programmes $5bn over budget

By Alexander Nicoll, Defence Correspondent

The UK's biggest weapons procurement programmes are costing £3bn ($5bn) more than estimated and are an average of three years late, the National Audit Office, the state spending watchdog, reported yesterday.

Its annual "major projects" report produced a broadly similar picture to last year's.

It disclosed that Lockheed Martin of the US will pay an estimated £23.5m in damages because of delays on its £1.1bn programme to deliver 25 C-130J transport aircraft.

It criticises the method of calculating damages arising from delays to Land Rover utility trucks, saying damages recovered are less than 2 per cent of the £23m additional defence ministry costs.

The ministry said it was conducting an wide review of procurement practices. Officials said the greatest potential for savings in defence contracts was in their earlier stages and the results would therefore take time to work through into NAO reports.

The NAO analysed 25 projects with a combined cost of £36.9bn which have the highest forecast expenditure over the next 10 years and on which £10m has already been spent. The cost of the 20 projects common to last year's report and this year's has risen by £341m, of which about one-third was due to changes in programmes. Of the increase, £124m came from the EH-101 Merlin helicopter, mainly because of a crash in 1996 of a pre-production model.

Inflation accounted for nearly one-third of cost increases, with the cost of the £14.2bn Eurofighter rising by £95m and that of the C130J aircraft by £48m.

Although the average delay remained unchanged at 37 months, the 20 common projects slipped by an average of three months during the year, the NAO says.

Projects further delayed include the £2bn Astute submarine programme, held up by 14 months mainly because of negotiations with GEC, the manufacturer. It is now 3¼ years late. The Bowman radio programme for the army is now 6¼ years overdue.

NEWS DIGEST

SCOTTISH REPROCESSING SITE

Concern over role of plant in Indian bomb making

The government was urged yesterday to shut the troubled Dounreay nuclear reprocessing site in Scotland as concern grew about the plant's safety problems and its role in helping India to develop nuclear weapons. Roseanna Cunningham, chief environment representative for the Scottish Nationalist party, said Dounreay had sent highly enriched uranium to India, where nuclear weapons testing this week has triggered international outrage. "I suppose that this is one of the UK's contributions to non-proliferation," she told the House of Commons.

Dounreay confirmed that it had delivered fuel elements to India's Apsara reactor in the 1960s, but said it had recovered them for reprocessing in the early 1990s. But it said that in recent years it had "no commercial dealings with India" because of the Delhi government's failure to sign the nuclear non-proliferation treaty.

Ms Cunningham called for the ageing plant to be "retired before there is any more opportunity for error". The plant was ordered to shut down its fuel cycle area indefinitely on Monday after a power failure raised safety worries. Dounreay, which is operated by the Atomic Energy Authority, was last year ordered by the Nuclear Installations Inspectorate to stop reprocessing after other technical faults were uncovered.
Leyla Boulton in London and James Buxton in Edinburgh

BUTTE MINING

Former director convicted

A former director of Butte Mining, set up to extract mineral deposits from a mine in Montana in the US, was convicted in London yesterday on two counts of conspiracy to defraud. John Clarke was convicted of conspiring with others to defraud shareholders in Butte by helping to publish misleading details about the company during share issues in 1987-88.

A second defendant, Roy Bichan, another Butte director, was acquitted of the same charges. The jury is still considering verdicts on two other defendants. **John Mason, London**

COMPUTER DATE PROBLEM

Legal action threatened

Companies failing to take steps to correct the "millennium bomb" – the computer date recognition problem which threatens to disrupt all areas of life after 2000 – could face legal action, the Health and Safety Executive warned yesterday. Clive Norris, director of safety policy at the HSE, said that companies had no alternative to taking action of some kind. "At the very least, you should identify whether you have a problem or not. If you don't have one – end of story. But if you do, and you do not deal with it, inspectors will consider appropriate enforcement action." Proposals range from insisting on "year 2000 compliance" by law to requiring public companies to list their preparations in financial reports. The HSE move is the first real threat of action against companies ignoring the problem. **Alan Cane, London**

FINANCIAL TIMES

Award for aide to SA minister

The seventh David Thomas Prize has been awarded to Jeremy Baskin of Johannesburg for an essay entitled A Basic Income for South Africa. Mr Baskin, adviser to South Africa's labour minister, received the £3,000 ($5,010) award at the London headquarters of the Financial Times. The prize was established in memory of David Thomas, an FT journalist killed on assignment in Kuwait in 1991. The theme of the 1998 award was The Future of Work.

COMMERCIAL VEHICLE SALES

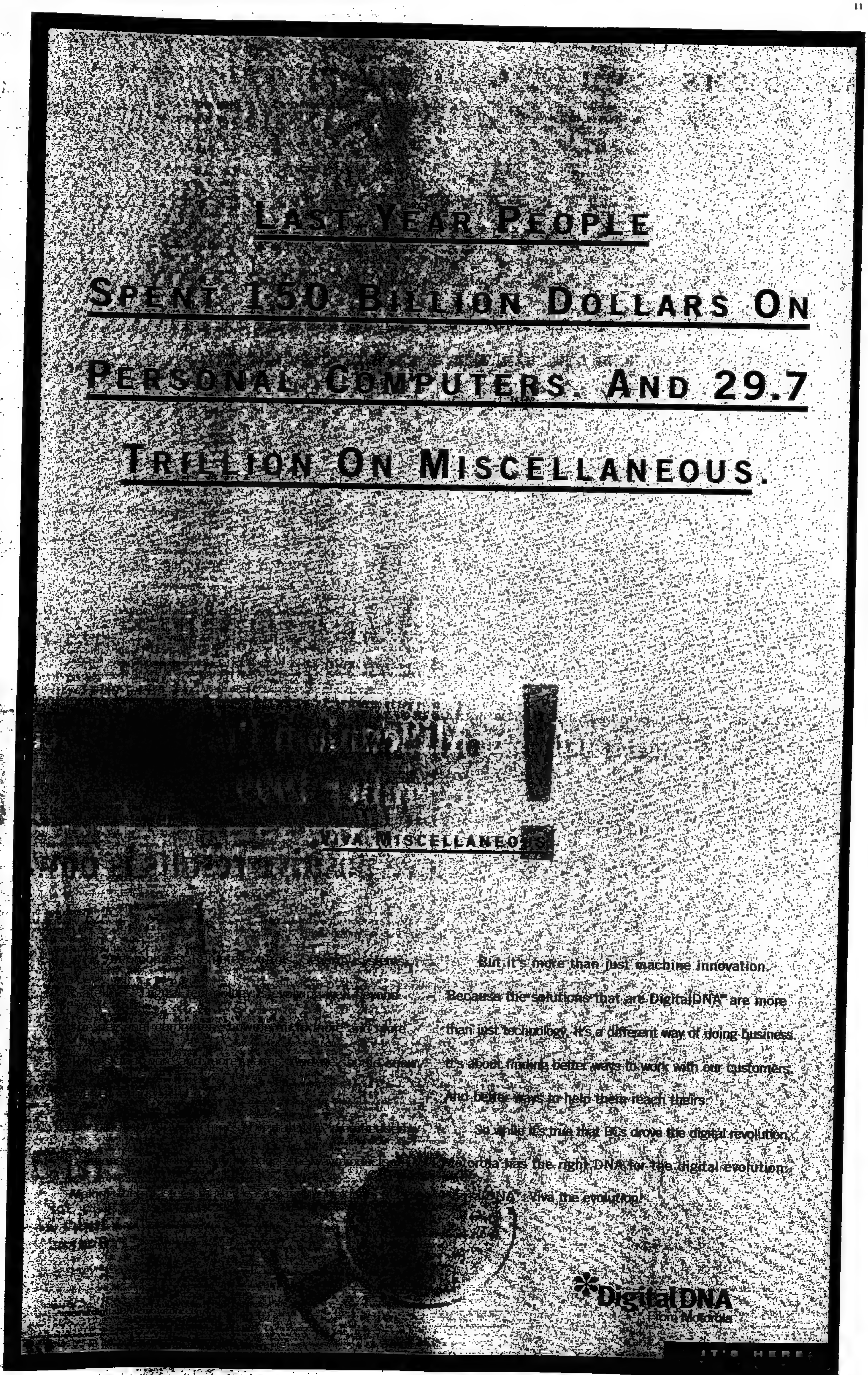
UK truck registrations: April 1998
Trucks (over 3.5 tonnes)

	Apr 1998 Volume	Apr 1998 % chg	Apr 1998 % share	Apr 1997 % share	Jan-Apr 1998 Volume	Jan-Apr 1998 % chg	Jan-Apr 1998 % share	Jan-Apr 1997 % share
Total	4,444	29.4	100.0	100.0	16,795	25.5	100.0	100.0
Imports	3,084	31.3	69.4	63.7	11,557	43.2	69.0	60.5
Leyland Daf (Paccar*)	799	-1.0	18.0	21.9	3,407	15.8	20.4	22.1
Iveco Group** (Fiat)	676	20.3	15.2	17.2	3,181	20.0	19.0	19.6
Mercedes-Benz (Daimler Benz)	694	14.7	15.9	16.4	2,399	28.5	16.5	15.2
Volvo	634	36.3	14.3	12.8	2,010	22.3	12.0	12.5
Scania (Sweden)	499	45.2	11.2	9.5	1,957	33.9	11.7	11.0
MAN	414	38.0	9.3	8.4	1,399	49.8	8.4	7.8
ERF	224	7.7	5.0	5.8	933	31.4	5.6	5.3
Renault	195	42.0	4.4	3.7	668	47.8	4.0	3.6

[illegible]
* Paccar also owns Foden. ** Includes Iveco, Ford and Seddon Atkinson
Source: Society of Motor Manufacturers and Traders; industry estimates

Truck imports rise by 31.3%

Imports of trucks jumped by 31.3 per cent last month, the Society of Motor Manufacturers and Traders reported yesterday. That continued a trend that saw the share of the truck market taken by imports reach a record 69.3 per cent – well above the 63.6 per cent of April 1997. Importers are making strong gains in all sectors of the market for commercial vehicles. Importers' share of panel van registrations last month was 58 per cent, 10 percentage points above the previous April. Within the total market the rising import trend was just as clearly marked. Panel van imports were up 23 per cent. Imports of light vans increased nearly 10 per cent as groups such as Mercedes, Peugeot and Fiat reaped the benefits of new models and competitiveness enhanced by sterling's strength. April saw a year-on-year rise of 20.4 per cent in registrations of trucks. **John Griffiths, London**


LAST YEAR PEOPLE
SPENT 150 BILLION DOLLARS ON
PERSONAL COMPUTERS. AND 29.7
TRILLION ON MISCELLANEOUS.
VIVA MISCELLANEOUS
But it's more than just machine innovation.
Because the solutions that are DigitalDNA™ are more
than just technology. It's a different way of doing business.
It's about finding better ways to work with our customers.
And better ways to help them reach theirs.
So while it's true that PCs drove the digital revolution,
Motorola has the right DNA for the digital evolution.
DigitalDNA. Viva the evolution!
DigitalDNA
from Motorola
IT'S HERE.

MANAGEMENT PROFESSIONAL SERVICE FIRMS

Managing when your output is people

Tony Jackson asks how big a firm may get and still remain fast and flexible

The professional service firm, the management guru Tom Peters says, is "the best model for tomorrow's organisation in any industry".

He is not alone. These firms – consultants, auditors, lawyers and so forth – are typically informal in their structure, and good at teamwork and knowledge sharing. The world's big corporations are easily portrayed as lumbering in their wake.

The reality is more subtle. Professional service firms once consisted of small groups of like-minded peers. Their headlong growth is bringing them management problems that most big corporations addressed long ago.

Some are turning into conglomerates – not the most fashionable structure in the corporate world. Some are trying to run their business worldwide rather than by country, just as the big global companies have done for years.

But the Tom Peters view cannot be dismissed. Start with the way these firms train, organise and lead their people.

"The management of the professional services firm is an oxymoron," says a senior management consultant. "The trick is to guide and steer people without managing them."

Or as Alan Morris, senior partner of the law firm Simmonds & Simmonds, puts it, leadership means being clear on the objective. "If you're very focused on that, you can be very flexible. A lot more people can come up with their own solutions. My job is to tweak people back towards the end result."

An essential element is the creation of teams, which can work together on coming up with the answers. Teams are also central to training.

Paul Mitchell, UK head of the Boston Consulting Group, says: "A huge amount of the training people get is in discussion with those who have been down the road before. When young people join the firm, they join teams. That only works if you have enough senior people with enough time to devote to them."

Nobody in Mr Mitchell's firm is expected to spend more than 50 per cent of his or her time on conventional management. "In the professional services firm, leaders lead partly through their credibility as practitioners," he says.

But if teams are vital, it is equally important that people do not identify with them too strongly. Peter Smith, UK head of Coopers & Lybrand, says: "The leadership skill is ensuring you don't create firms within firms. So you move people from group to group, and you organise around clients."

Partners must also look beyond their client responsibilities. Mr Mitchell says: "It's relatively easy to narrow your focus to those clients which concern you, and leave worrying about your people as a whole to someone else. But the one thing which absolutely motivates junior people to stay is the sense that senior people are role models, and demonstrate they care."

'The management of the professional services firm is an oxymoron. The trick is to guide and steer people without managing them'

There is one more area in which professional service firms claim a clear lead over their clients: that most fashionable discipline, knowledge management. Knowledge is their entire stock in trade. If they do not know what they own, they are dead.

They transfer their knowledge in three ways: first, the apprenticeship system; second, the creation of networks, by meetings or e-mail: third, the formal logging of data on to central computer systems.

This is the most talked-about method, but not necessarily the most important. Suppose, Mr Mitchell says, he has a new client in the ice cream business and needs to find out about the industry. "I don't want 5,000 electronic entries on ice cream. I'd use the system to find out who knew about it, then phone for a chat."

That has profound cultural implications. "The people with the knowledge need to be willing to transmit it, even when they're busy and there's nothing in it for them. A partnership structure is more conducive to that. You keep finding companies where division A doesn't talk to division B, and if a division A manager helped division B he would get a bollocking."

So much for the professional service firm's advantages. What about the drawbacks?

One of these is the risk of conglomeracy. The Big Six accounting firms will audit a client's books, advise it on strategy and very possibly take over whole functions such as tax, IT or even payroll. At what point does this run out of control?

"That's a very fair challenge," says Mr Smith of Coopers & Lybrand. He has two main answers. First, some at least of the people involved can be switched from one task to another. More important, he argues, the job of the big professional service firm these days is to work on complex problems.

"It all comes back to the client partner," he says. "He or she is critical as the person who identifies the complex problems to be solved. Then the organisation needs to have the knowledge system to tell that partner how to bring the skills from around the world to solve them."

On the face of it, this is hard to argue with. All the same, there remains a faint sense of unease.

It has emerged from this series that today's professional service firms are the product of opposing tensions. Their immense growth papers over certain problems and gives rise to others. It is not clear how far that growth is desirable. Nor is it clear how far it can be sustained.

One final thought from Mr Smith. The auditing business was created in Victorian Britain. The consulting business has its roots in the US. The model of the professional service firm now being exported worldwide is essentially Anglo-American.

Mr Smith's experience in Asia and Latin America suggests the model may not be entirely suited to local ways of doing business. "Over the next 20 years," he concludes, "the interesting question for the next generation of leaders will be whether this is a truly global approach. Or will there be something inherently Chinese or Latin to challenge it?"

This is the last in a series of three articles on professional service firms published this week.

TECHNOLOGY WORTH WATCHING

Spin doctoring may be the key to quantum computer

Quantum computing is the Grail of electronics. Using the principles of quantum mechanics, these computers are theoretically capable of performing tasks in many fewer steps than classical computers. But no large-scale quantum computer yet exists; the practical problems in building such a device are formidable.

A radical proposal for the design of a quantum computer has been put forward by researchers at the *University of New South Wales* in Sydney in this week's Nature, the international science journal.

The design relies on the electronic manipulation of atomic nuclear spins. The computer's information units – or quantum bits – come from the quantised nuclear spin states of phosphorus atoms in doped silicon. To perform the calculation, these spin states are controlled and measured electronically.

The attraction of the proposed device is its use of solid-state silicon devices, so it would not need an entirely new fabrication technology. However, there would have to be significant advances in conventional silicon electronics before the idea may be realised.

University of New South Wales: Australia, tel 61293856313; e-mail kane@newt.phys.unsw.edu.au

Chemical to help track Parkinson's

US researchers have developed an imaging agent that may allow doctors to diagnose Parkinson's disease more accurately and earlier.

Researchers at Harvard Medical School and Massachusetts General Hospital have developed a chemical called Altropane, which allows them to visualise the degree of nerve loss in the brains of people with different stages of Parkinson's.

At the moment, the disease is wrongly diagnosed in a significant minority of early stage cases. Early diagnosis would help researchers to develop treatments.

The chemical, which has a similar structure to cocaine, binds to a protein that is associated with certain neurons that gradually die as the disease progresses. By attaching a radioactive label to the chemical, it can be detected using computed tomography imaging.

Massachusetts General Hospital: US, tel 6177262000; http://www.mgh.harvard.edu/

Daimler makes waves to cut noise

Daimler-Benz, the German car company, is working on an electronic system that may silence the irritating drone of a car engine at the touch of a button. The idea behind the system is that two sound waves will cancel each *other out, if one is delayed by half* a wavelength.

The system comprises eight microphones in the lining of the car roof, which detect sound and convert it into signals. A microprocessor displaces the signals by exactly half a phase and distributes them to six speakers around the car. These speakers emit "delayed" noise that will cancel out much of the engine noise for the driver and passengers.

Daimler-Benz: Germany, tel 7111793271; fax 7111794365

Trials to start on bar-code successor

The first trials of "smart label" technology developed by Philips Semiconductors are about to begin in Spain.

These labels contain an integrated circuit attached to an antenna. The chip can communicate with a scanner by radio signals over a distance of up to 1.2 metres.

The chip can be programmed with detailed information about the product, such as the date and place of manufacture and distribution history. Information may be changed or added to the label, which is an important advantage over conventional bar-codes. It also allows individual products to be examined without having to unpack each item.

The technology has been developed by a group of European countries.

Philips Semiconductors: The Netherlands, tel 31402722091; http://www.semiconductors.philips.com

Vanessa Houlder

هكذا من الاصل

CINEMA

Murder most irresistible

Nigel Andrews on Pedro Almodovar's colourful black comedy

Life in Pedro Almodovar's *Live Flesh* comes in a variety of colours. Red, green and orange for furniture and wallpaper. Bright pink and sky-blue whenever possible. And scarlet for blood, lots of it.

Once a colourist, always one. This movie is so gorgeous to look at – like a Matisse cut-up collage that has formed itself into a story – that you forget it is a thriller based at several Spanish removes on a Ruth Rendell novel. It seems more like a mad, murderous sequel to Almodovar's *Women On The Verge On A Nervous Breakdown*.

LIVE FLESH
Pedro Almodovar

DEEP IMPACT
Mimi Leder

WILD THINGS
John McNaughton

THE HANGING GARDEN
Thom Fitzgerald

KINGDOM II
Lars Von Trier

I could describe the plot, but I take warning from Barry Norman's recent attempt to do on TV. Fifty million ears glazed over as he related how handsome orphan Victor (Liberto Rabal) loves beautiful charity-worker Elena (Francesca Neri) who is married to wheelchair-bound ex-cop David (Javier Bardem) who was having an affair with his partner's wife Clara (Angela Molina) when Victor's gun fatefully went off...

Almodovar's genius is to make this multi-strand spaghetti-like story seem flavoursome, *al dente* and irresistible. It is about the impossible relationship between passion and destiny. Destiny makes portentous patterns for our lives, as in the prologue showing the baby Victor's emergency birth on a bus during Franco's 1970 Emergency. (The state duly honours him with a free bus pass.)

Next, passion comes in to turn everything to anarchy or emotional action-painting. Then patterning comes back once more, in the rhyming ironies of a world where even things that don't go to plan in a sense do; as in the scene where a ricocheting bullet in a real room ends up killing a person (or seeming to) on television.

The movie being shown is a Bunuel black comedy, which is what Almodovar's film essentially is in colour. Human communication, never mind human love, is a nest of serpents. People love each other and hate each other for all the wrong reasons. "You're offensively honest," says one spouse to another. And when words fail Almodovar inserts a near-abstract close-up of an orange being sliced or a glass rolling on the floor. He gives these the force of visual *haikus*, luminous little worlds of chaos or cruelty animated by metaphor. In this film there seems scarcely a moment when the screen is not alive with wit, wisdom or a darkly mischievous symbolic resonance.

★

In *Deep Impact* the world is about to catch a meteor the size of New York. President Morgan Freeman, the first black man in the White House, calms the people, quotes from the Bible and sends Robert Duvall into space. Duvall, crinkling his Cro-Magnon forehead, pilots a crew whose plan is to use nuclear devices to explode the thing before it hits Central Park. Meanwhile, down in Central Park and environs, Vanessa Redgrave, Maximilian Schell, Elijah Wood and others have just so many hours to sort out their soap-opera relationships.

The film is even worse than it sounds. This disaster movie in all senses begins slowly, speeds up to snail pace, then gives us a brief visual epileptic fit (tidal waves sweeping away Manhattan) before subsiding into its piously inspirational "Life goes on" mode.

To go on, however, life must at least begin. Here we are shuffled between rival plots like visitors to an ill-laid-out garden of remembrance. Over here is a moribund love story, there a bit of political intrigue, there again two parents fighting to repair their relationship (Schell and Redgrave) while their TV anchorwoman daughter (Tea Leoni) is busy keeping us up to speed with the story. Once or twice a spectacular shot of a gridlocked evacuation highway shows us simultaneously what we are missing, spectacle, and what we are getting, paralysis.

★

The plot of *Wild Things* is little better. It has as many twists as a corkscrew, but there are corkscrews and corkscrews. Some cleanly release the cork; others reduce everything to debris in the bottle.

John McNaughton of *Henry: Portrait Of A Serial Killer* directed this tale of a girl who cries rape, a teacher who protests his innocence (Matt Dillon) and a police detective (Kevin Bacon) who takes a personal interest in the case after he has declared public war on sex crimes. The three other main characters are Florida (ah the unruly passions of the South!) big money (Theresa Russell as the girl's mother and Robert Wagner as her fat-cat friend), and *Scream*'s Neve Campbell as the sultry "swamp trash" – her words not mine – who may be behind it all.

Actually almost everyone is behind it. As one last-reel twist outdid another I jokingly whispered to a friend, "At this rate even Bill Murray (who plays a comic-relief lawyer) will be in on it." And lo! He is. The film plays like *Blood And Wine* crossed with *Suddenly Last Summer*. And to prevent you missing the point that the film is talking about Serious Primitive Emotions, McNaughton features many a cut-in shot of alligators and tom-tom noises on the soundtrack.

★

Feelings are primal in *The Hanging Garden* too. A gay Irish-Canadian youth comes home for a family reunion and hallucinates all over the garden: *inter alia* he "sees" his suicidal younger self hanging from a tree. We are not talking any garden here. This is the rambling, exotic bower where Dad used to hit him if he couldn't remember the names and seasons of all the plants.

Our mad geneticist has this time crossed *Suddenly Last Summer* with *Look Homeward Angel*. Writer-director Thom Fitzgerald has poetry in his camera – it performs lyric swoops and arcs – but grit in his story sense. If we are in psychodrama-land how come other characters coolly share the boy's visions? If we are in naturalism-land, with antic twitches, why do the fringe characters like Granny seem as consistently batty as anything else?

★

Pass on to *Kingdom II*. Here the comfort is that everyone is mad without exception or apology. This is the sequel to Lars Von Trier's great mega-soap set in a Danish hospital. Taken entire, this work is surely the finest folly in all brink-of-millennium cinema.

The characters are unforgettable, from the bubbling, fusspot neurosurgeon downwards. The photography is like Edvard Munch transferred to celluloid. And the dialogue stays in your head creating ripples of bleak mirth for days after. I especially liked the surgeon who comforted the parent of a boy with a congenital ailment. "Statistically a child like yours is born with a certain regularity." "What sort of regularity?" "One in 180 million."

Liar (directed by Jonas and Josh Pate) and *The Man Who Knew Too Little* (Jon Amiel) are both in wait-for-the-video category. The first begins promisingly, with Tim Roth writhing in the murder suspect's chair as two frightening cops (Chris Penn, Michael Rooker) prepare to grill him. But tension evaporates in overplotting and overacting. In the second film Bill Murray mugs through a laughless London-set comedy thriller, like out-takes from *Austen Powers*.

Darkly mischievous: Liberto Rabal and Angela Molina in Almodovar's 'Live Flesh'

OPERA

'Traviata' gets lost in space

This revival of *La traviata* is all a matter of survival. It is not just the fate of Verdi's poor heroine that is touch-and-go, so much as the chronically stricken Royal Opera.

In a few days we should know all, when the independent report on the future of London's opera houses is published. It does seem an irony that its author should be Richard Eyre, who was the Royal Opera's producer for this *La traviata*, but somehow that is typical of the whole Royal Opera farce. Keeping track has been quite confusing, as the main players have come and gone at a speed that must keep the costume-change staff in the wings on their toes.

After the company's earlier success with *Otello* at the Royal Albert Hall in the autumn, hopes were high for this return visit. Unfortunately, its second try at opera in the arena with another Verdi is disappointing, for various reasons.

A note in the press hand-out tells us that Eyre's sumptuous production has been "specially adapted" for the RAH stage, but that is a choice example of public relations double-speak. To judge from what we see here, the bailiffs have already paid a visit to the Royal Opera scenery store and have gone off with most of the sets. A dining-room table against a projection of trees makes do for one of the "sumptuous" settings here. And the back wall of the hall has been half-heartedly hidden from view by hanging up white sheets.

The singers are left with a lot to do and not much help is put their way. Consumption is not the only thing this Violetta has to fight against. Elena Kelessidi engages in a mortal struggle with the wheezing air-conditioning system of the Albert Hall, not to mention mobile phones, pagers and digital watches. At Covent Garden she has already proved herself as a fragile and sensitive Violetta of real distinction, but the same portrayal fares less well in this huge auditorium.

After some criticism about its amplification for *Otello* the company has turned the knobs down this time. Marcelo Alvarez, as Alfredo, has fewer scruples than his Violetta about playing to the gallery and also judges the sound system more successfully, mixing full-throated singing with some effective softer moments. Vladimir Chernov is a strong, stylish Giorgio Germont. The smaller roles are mostly well taken.

Strangely enough, the orchestra has also lost out on volume, though the sound quality through the microphones is cleaner and better balanced than before. Or perhaps Simone Young's well-paced conducting simply needs a bit more red-blooded Italianate bite. In a more appropriate venue, and with the production intact, this cast has the potential to deliver the first-rate performance of *La traviata* which eludes it here. The Royal Opera must be praying for the day it can get back home to Covent Garden. Will Richard Eyre's latest script provide it with a happy ending?

Richard Fairman

'La traviata' continues at the Royal Albert Hall, London SW7 until May 23

Pop vision of downtown New York

THEATRE

ALASTAIR MACAULAY

Rent
Shaftesbury Theatre, London WC2

As shlock musicals go, *Rent* is harmless enough. It is a well-meaning, trite, and muddled New York show about the New York of the early 1990s; as seen in London in 1998 – although the West End and Broadway productions are virtually identical – it looks rather more feeble and absurd. A thoroughly p.c., inadequately narrated, not-very-up-to-date, re-telling of *La Bohème*, it features dykes, gays, drugs, punks – but so do umpteen shows these days. It is a pop vision of downtown New York that has triumphed in uptown New York: Broadway pretending to "get" the Lower East Side and hugging it to death.

Cute; tepid; phoney. "They say that I have the best ass beneath 14th Street!" sings Mimi; "I didn't recognise you without the handcuffs," replies Roger. The book, music, and lyrics for *Rent* were written by Jonathan Larson, who died in 1996, aged 35, of an Aids-related aortic aneurysm. Yet *Rent* sounds more musically old-fashioned than these facts about Larson's life lead you to expect. Apart from a teensy bit of diluted rap, there is not a musical idea here you haven't been hearing since the mid-1970s; *Rent* is a Middle-Aged-Trendy rock-opera masquerading as Youth Culture. It includes tango, soul, and other genres: all ironed out into musical uniformity by rock treatment.

Do you remember *Hair*? *Rent* deliberately recycles ideas from that 30-year-old paean to liberalism. "Sodomy! Masturbation! Marijuana!" sings its cute little chorus-line of downtown Bohemians, as if these words were fashion items or tourist attractions. Have the 1960s sunk to this? *Rent* is *Hair* without the melody, without the hope, and without the originality.

So what gives in *Rent*? Roger (in *La Bohème*, Rodolfo) plays guitar and tries writing saccharine pop songs. Mimi is a kinky dancer; also a drug-addict. Mark (Marcello) is a wannabe avant-garde film-maker (though the film he shows at the end is, by downtown New York standards, both dated and corny). He used to date Maureen (Musetta).

'Rent' is 'Hair' without the melody, without the hope, and without the originality

She is now a lesbian performance artist. Angel (Schaunnard) is a drag queen. She/he has an affair with Collins (Colline). Mark's and Roger's former room-mate Benny now charges them rent and plans to evict them soon; he also used to date Mimi.

Act One – in which the two main couples fall in lurve – is stale. Angel sings with Collins of sharing "a thousand sweet kisses". Mimi and Roger, falling for each other less energetically, just keep chanting "Here goes".

Act Two – in which two of the lovers die, sort of – is staler. "How do you measure a year?" everyone sings to us after the interval; whereupon they all suggest "How about lurve?" Angel, no longer in drag but dressed in white, dies of Aids and/or a truly silly piece of Let's Wave White choreography. You would need a heart of stone not to giggle at the memorial service to her/him. And wits of lead not to yawn at the death of drug-wrecked Mimi. "Who do you think you are?" sings Roger to her as she lies there, gazing up at him but not dying fast enough. So he clobbers her with the rhyme: "...leaving me alone with my guitar?"

I like some of the performances (Bonny Lockhart as Collins, so relaxed) and loathed others (Anthony Rapp as Mark, so nerdish and tense). But so what? In recycled pop material like this, the difference between good and bad performances is too small to be interesting. Not even the difference between the four American actors from the Broadway production and the British newcomers is interesting.

Sentimental shlock: Anthony Rapp and Adam Pascal — Alastair Muir

Many very successful modern musicals are much worse than *Rent*, and many of them deliberately leave a nastier taste in the mouth. *Rent* is really just a feel-good bit of sentimentality. Its bad characters aren't really bad, and its good characters aren't really good. You're meant to feel sorry for those who die, and to be glad that their lovers who live can turn their experience into downtown art. But are you? As in most modern musicals, the overall effect of *Rent* is to make you feel less, not more, sensitive. Less, not more, human.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
Sunday: Photographs by Catrien Ariëns. The first in a series of special photography commissions asks what do the Dutch do on Sundays; to Aug 23

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Tosca: by Puccini. New production by Nikolaus Lehnhoff, conducted by Riccardo Chailly. Cast includes Bryn Terfel; May 15, 17, 19

BONN

EXHIBITIONS
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
The Iberians: display of 350 objects made, between the sixth and the first century BC, by a little-known civilisation which existed on the west of the Mediterranean bowl, between Andalucia and Languedoc. Some of these objects have never before been removed before from the sites of their excavation. Others have been loaned by Spanish and French museums; from tomorrow until Aug 23

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 15, 16, 17, 19
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 14, 15, 16, 17, 19

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Franz Welser-Möst in works by Brahms and Shostakovich. With piano soloist André Watts; May 14, 15, 16, 19

CLEVELAND

EXHIBITION
Cleveland Museum of Art
Tel: 1-216-421 7340
www.clemusart.com
Gifts of the Nile: Ancient Egyptian Faience. Display of ceramics, known as faience, made of a mixture worked by the Egyptians and regarded by them as magical. Brings together over 200 works, including statuettes of kings, gods, and animals, and inlaid boxes ranging over 5000 years. Includes works borrowed from public and private collections in the US and Europe; to Jul 5

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola; May 15, 17

FRANKFURT

CONCERT
Frankfurt Oper
Tel: 49-69-21202
Budapest Festival Orchestra: conducted by Iván Fischer in works by Mahler and Bruckner; May 15

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg; May 16

HOUSTON

EXHIBITIONS
Museum of Fine Arts, the Menil Collection and the Contemporary Arts Museum
Tel: 1-713-639 7750
Robert Rauschenberg: previously seen at the Guggenheim, New York, this major retrospective spans the artist's 50 year career and includes some 400 works. The Menil Collection hosts works from the 1940s through the mid 1960s. The Contemporary Arts Museum presents important technological works, while the Museum of Fine Arts will show the most recent work; ends on Sunday

LAUSANNE

CONCERT
Théâtre de Beaulieu
Tel: 41-21-643 2211
Orchestre de la Suisse Romande: conducted by Ulf Schirmer in works by Carl Nielsen and Isang Yun. The programme is completed by Stravinsky's Rite of Spring; May 14

LISBON

CONCERTS
100 Days Festival, Expo '98
Madrid Symphony Orchestra: El Amor Brujo by Manuel de Falla; Main Auditorium, Centro Cultural de Belém; May 16, 17

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
Barenboim Beethoven Cycle: series of six concerts, with Barenboim conducting the nine Symphonies and directing the five Piano Concertos from the keyboard. With the Staatskapelle Berlin and London Symphony Chorus; May 15, 16, 17

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Bonnard (1867-1947): focusing on more than 100 works produced between the 1890s and the 1940s. Includes landscapes, still lifes, a series of nudes depicting Marthe, Bonnard's lifelong companion, and several self-portraits; ends on Sunday, then transfers to New York

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 14, 16, 19

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Bavarian Radio Symphony Orchestra: conducted by Dmitrij Kitajenko in works by Prokofiev and Tchaikovsky; May 14, 15

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 15, 18

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by James Conlon in works by Zelinsky, Rachmaninov and Liszt. With piano soloist Garrick Ohlsson; Avery Fisher Hall; May 14, 15

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
When Silk Was Gold: Central Asian and Chinese Textiles. Featuring 64 precious textiles from the 8th to 15th centuries, when they were of immense economic and cultural significance; ends on Sunday

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Vassili Sinaïsky in works by Haydn, Saint-Saëns and Beethoven. With cello soloist Han Na Chang; May 19

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Manet, Monet, and the Gare Saint-Lazare: places Manet's famous painting in a context provided by works by other artists and a group of related drawings, prints and photographs; ends on Sunday

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Japan Philharmonic Symphony Orchestra: conducted by Ken-ichiro Kobayashi in Mahler's Symphony No. 8; May 14, 15
● London Symphony Orchestra: conducted by Sir Colin Davis in works by Mendelssohn and Elgar; May 19

Tokyo Opera City Concert Hall
London Symphony Orchestra: conducted by Sir Colin Davis in works by Beethoven; May 17

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.
At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

A sterling cure

Market belief in British entry into Emu has done more than anything else to take sterling off the boil

Many economic problems will, like medical ones, cure themselves if the doctors will leave the patient alone.

Is this the case with sterling? Its overvaluation has been the main UK macro-economic problem for a good many months. The strength of domestic demand has pointed to the need for a tightening of monetary policy, while the high pound has argued for a softer approach.

Now, *while attention has* been concentrated on the euro, the problem may be solving itself. Despite yesterday's "recovery", sterling is still well off its 1998 high to which it is most unlikely to return.

Yesterday's move represented a knee-jerk market reaction to erratic buoyancy in some fresh UK monthly economic data, that included the slightly *faster-than-expected drop* in payroll unemployment and a jump in earnings growth. But cooler reflection will remind people of occasions in the recent past – noted in the Bank of England's own Inflation Report – when a reported acceleration in earnings was soon cancelled by a subsequent revision of official data.

In any case, the wrong way to react was the *finger-wagging at* private-sector employers in which both ministers and Bank of England officials indulged yesterday. This is not only reminiscent of the worst habits of Old Labour, but futile and betrays a lack of confidence in the UK monetary framework.

Meanwhile the London Business School not only predicted the weakening of sterling but, in its May Economic Outlook, carried an article by Francis Breedon, head of foreign exchange economics at Lehman Brothers, who *ascribes recent* developments to a new theory of "delayed overshooting". This is more likely than attributing them to sterling sales by George Soros who is sensitive to changes in market expectations but hardly causes them to happen.

According to conventional theory, if the markets are taken by surprise by a sudden tightening of *monetary policy*, the currency concerned will shoot upwards to a point where it is expected to fall in the months and years ahead. This is necessary if the net advantages of holding funds in different currencies are to be equalised.

Mr Breedon offers a correction to the conventional wisdom. In his view the full overshooting or undershooting of a currency does not take place immediately but gradually. For it takes time to convince markets that policy really has moved on to a new track. So sterling's rise was a delayed reaction to earlier policy tightening and its recent *fall a delayed reaction* to the realisation that interest rates had probably peaked.

There may be a simpler explanation, suggested by a table in Mr Breedon's own article. This sets out a range of possibilities both for when the UK might join European economic and monetary union and for the exchange rate at which the government might be prepared to join. The range of entry rates is plausibly given at between DM2.50 and DM2.70.

Anyone prepared to take a view on both the entry date and the entry rate can work out immediately an approximate value for sterling *today*. For it has to be at a level where its depreciation between now and the time of entry offsets the interest advantage of holding funds in London rather than in Frankfurt.

A common opinion is that the next UK election will be held early in 2002. This will be followed by a referendum and, if the government gets a "Yes" vote, sterling would merge with the euro in perhaps January 2003. If the entry rate is DM2.60 the appropriate rate for sterling now would be DM2.85. On the more cautious view that entry is unlikely until January 2004 and that the government will accept a more "challenging" entry rate of DM2.70, then the appropriate rate for sterling today is DM2.98. It is hardly a coincidence that sterling now is hovering between these two values.

The event that has precipitated the sterling shakedown was the final agreement (however flawed) of European Union ministers to establish the euro, and the confirmation of the bilateral entry exchange rates among the 11 initial members. On top of this, the Bank of England acknowledges a clear slowdown in the British economy and an actual recession in manufacturing, thus weakening the case for any further rise in interest rates. The published minutes of the Bank of England's Monetary Policy Committee have confirmed a shift towards the "doves".

It is a matter of guesswork whether sterling would have come so quickly off the boil if there were no prospect of Britain joining Emu – for instance if there had been a Conservative Eurosceptic government in office. Both Tony Blair, the prime minister, and Gordon Brown, the chancellor, have vehemently denied that the recent strength of sterling was a reason for joining Emu. They insisted that an entry decision should not be made on such a short-term basis. But ironically, surmise about the probable timing and entry rate may have been nearly as effective as an actual announcement of a firm intention to join.

Market commentators are right to warn that the inflation hawks on the MPC may live to fight another day. But the signal for middle-of-the-road opinion to swing towards the hawks is unlikely to be in the minutes of the forecast path for real output to which the Inflation Report devotes such loving care. Nor is it likely to be triggered by European interest rate developments. The Bundesbank is still signalling that it is not going to be pushed into tightening policy by a misguided desire to reach some average European level of interest rates, but is much more influenced by the low inflation in core countries.

In fact, the most likely cause for resurgence of support for UK hawks would be an increase in interest rates by the US Federal Reserve. Financial opinion in London is still ultra-sensitive to US developments. This may not be entirely rational, but it is hardly less so than the supposedly scientific forecasting in which the more academic members of the MPC prefer to indulge.

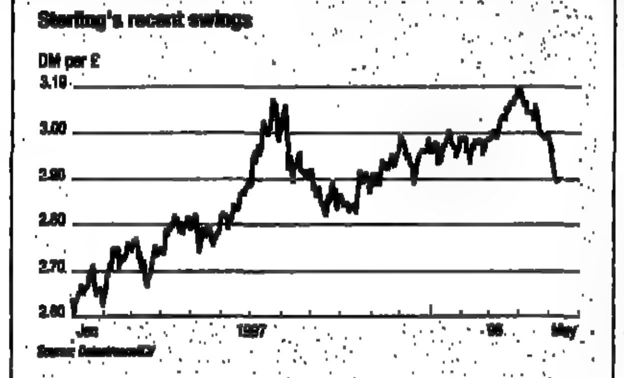
What would I regard as more truly rational? It would be to pay more attention to *actual* UK price data, which remain amazingly subdued. The Bank of England expectation of a temporary surge this summer to 3 per cent in RPIX (Retail Prices excluding mortgage interest) in response to the Budget increase in indirect taxes shows just how misleading a policy target RPIX is becoming. It really is quite absurd that when the chancellor heeds the inflation hawks by tightening fiscal policy, the official indicators should slap him in the face by registering a rise in the main inflation benchmark.

It would be going to the other extreme to go by the harmonised European-based index which showed UK inflation of only 1.6 per cent, but at the cost of leaving out important items. The producer price inflation rate of near zero may also show a downward bias. Probably the best middle-of-the-road inflation indicator is the Bank of England's own RPIY, which excludes the effect of indirect taxes and stands at 2.1 per cent.

Someone who is suspicious of forecasts is not committed to ignoring clear forward-looking information, of the kind we had when oil prices rose fourfold in 1973. But a rational sceptic prefers current data to prognostications about the implications of slight variations in demand and output two years ahead.

samuel.brittan@ft.com

Sterling's recent swings



Source: Datastream/ICV

Break-even values for £/DM under alternative Emu scenarios

Emu entry date

Entry rate (DM per £)	Jan 2000	Jan 01	Jan 02	Jan 03	Jan 04
2.50	2.66	2.70	2.73	2.75	2.78
2.60	2.76	2.80	2.83	2.85	2.88
2.70	2.86	2.88	2.91	2.95	2.98

Source: LBS May Economic Outlook

LETTERS TO THE EDITOR

Fed and assumptions on interest rates should be challenged

From Mr Seth M. Bodner.

Sir, Why is it so unconsciously assumed that "Fed officials will need to push up interest rates in order to tighten financial conditions and restrain the pace of economic growth" (William Dudley in his Personal View, "From virtuous to vicious", May 6) and, noting a quarterly growth of 4.2 per cent annualised, "sustained growth of that nature would normally prompt the central bank to raise interest rates to slow things down, but... complicating the Fed's task is the gradual disappearance of inflation" (Gerard Baker in "Industry upbeat on US growth", May 6).

Are we now to assume that the role of the Federal Reserve is to slow economic growth even when that growth is taking place without inflation and with strong employment? Is it simply too much for the Fed to bear to leave well enough alone, to accept rising economic growth without inflation and decline to raise interest rates out of the habit of prior years?

Why should the disappearance of inflation "complicate" the Fed's task, and why should the Fed's role be seen as needed to "restrain" the pace of economic growth? Rather than assume these roles and positions, your writers/contributors should be challenging them and the Fed to justify any rate increase, or indeed, any movement at all.

Seth M. Bodner,
executive director,
National Knitwear and Sportswear,
386 Park Ave South,
New York, NY 10016, US

France in a spin over its foreign policy

From Mr Luis Garicano.

Sir, Your correspondents in France give the French foreign minister, Hubert Védrine, a free ride in taking at face value his claim of a new "realistic" French foreign policy ("A pragmatist ready to adapt France to the outside world", May 8). While they report some improvement on matters of attitude and opinion that are by nature unobservable, a simple reading of the main developments of last year presents a starkly different picture of the Socialist-Gaullist foreign policy.

The mandate of the new government opened with the French failure to accept entry in Nato on realistic conditions (your same correspondent, Robert Graham, observed, in "Masters of the grand gesture", on November 6, that "this refusal to enter Nato's military structure... smacks of petulant anti-Americanism") and closes with the exhibition of France's willingness to wreck either monetary union or the career of its closest ally, Helmut Kohl, the German chancellor, if the European Central Bank does not have a French governor. In between, the refusal by the French representative in the Security Council on October 23 (together with China and Russia) to support a mild tightening of sanctions on Iraq to punish its obstruction of biological weapons inspections directly led to the expulsion by Saddam Hussein of the inspectors one week later.

The demonstration of western disunion led the world to a situation as close to open and widespread war as it has seen in six years. In an indication that little of substance has changed, France was last month the only European country to exercise its veto on the bid for an EU-US marketplace.

French foreign policy in the first year of the Socialist government has been characterised by the same principle that has characterised it since De Gaulle: French singularity. Your correspondents do a disservice to your readers by accepting uncritically the efforts of the French foreign ministry's spin-doctors to limit the damage done to France by the last EU summit.

Luis Garicano,
628 1/2 W. Barry Ave. 3S,
Chicago, IL 60657, US

Now a euro computer bomb looms on horizon

From Mr I.M. Paton.

Sir, Following the millennium bug and the "Dow Jones bug" ("Computer bomb fear if Dow hits 10,000", May 5), do we now have a euro bug on the horizon because standard software running in our PCs does not support the euro symbol (Greek "E" with two cross bars)? That part of PC software which provides the interface with the printer will need to be modified so that the euro symbol joins the £ and the $ as a standard print character. What a pity politicians were not cost-conscious enough to choose "E".

I.M. Paton,
15 Humberstone Road,
Cambridge CB4 1JD, UK

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW BRUCE STOKES

Winning combination

Clinton and Blair have a unique opportunity to make progress on three global issues – sanctions, regulatory convergence and trade – when they meet in London next week

When Tony Blair, the UK prime minister, meets Bill Clinton, the US president, in London on Monday for the semi-annual summit between the US and the European Union, the two leaders have the unique opportunity to achieve three triumphs in the same day.

Both leaders should strive to resolve the debilitating transatlantic dispute over Cuba-Iran-Libya sanctions, launch a political dialogue on EU-US regulatory convergence and pledge to develop common goals for the forthcoming multilateral trade negotiations.

Breaking down barriers: Blair (left) and Clinton

By so doing, they can jump-start efforts to deepen transatlantic economic relations, hasten progress at the World Trade Organisation and once again demonstrate the value of the special relationship between Britain and the US that Mr Clinton and Mr Blair appear intent on cultivating.

The seeds for a successful summit have been sown. Sir Leon Brittan's visionary March 11 proposal for a "New Transatlantic Marketplace" set ambitious terms for the debate. Its rejection, *at least for the time being*, at the April 27 meeting of the EU Council of Ministers, is immaterial because the Clinton administration was not ready to take up Sir Leon's core challenge to create a transatlantic free trade area in services. But the flurry of creative thinking the proposal engendered in Washington and Brussels has established the outlines of a Blair-Clinton deal that could deliver meaningful benefits to both sides of the Atlantic.

The first order of summit business is finally to defuse the economic sanctions squabble. As long as the dispute over Helms-Burton and the Iran-Libya Sanctions Act continues, the French will use this *contretemps* as an excuse to avoid wrestling with the real barriers to transatlantic economic integration: differences in regulatory philosophy, support for farmers and treatment of culture-related industries. So it is time for Mr Clinton to bite the bullet and promise not to enforce Congressionally imposed, unilateral sanctions. Mr Blair, on behalf of the EU, must commit Europe to new efforts to build democracy in Cuba and to control the export of sensitive technologies to Iran and Libya. Beyond this framework, Mr Blair and Mr Clinton can leave the thorny details of the sanctions controversy to a later date. But an agreement in principle will open the door for progress at the summit on a range of other transatlantic economic issues.

The Blair House accord demonstrated that no global progress is possible on agricultural trade liberalisation unless Brussels and Washington first agree

Most immediately, Mr Blair and Mr Clinton should initiate a high-level political dialogue to overcome regulatory barriers to transatlantic trade. Regulatory disputes – with regard to hormones, veterinary standards and genetically altered materials in agriculture, for example – are a source of ever greater bilateral trade friction. The Transatlantic Business Dialogue, launched with much fanfare in Seville in 1995, was intended to come up with a series of business-supported mutual recognition agreements to overcome differences in standards and testing that impede commerce. But progress has been painfully slow because of foot-dragging by the US Food and Drug Administration, the Environmental Protection Agency and their counterparts in Europe.

To break this log-jam, Mr Blair and Mr Clinton need to call for regular joint meetings of key legislators from both sides of the Atlantic to discuss means of balancing consumer safety, environmental protection and commerce. The North Atlantic Assembly has been instrumental in building a base of legislators' support for Nato. Now is the time to build comparable legislative commitment to transatlantic economic integration. Nothing will focus European and American regulators attention more than engagement by their political masters.

Mr Blair and Mr Clinton also need to begin now to lay the groundwork for the 1999 WTO negotiations on agriculture. The Blair House accord between the EU and the US, which broke a hopeless deadlock after four years of fruitless farm talks in the Uruguay Round, demonstrated that no global progress is possible on agricultural trade liberalisation unless Brussels and Washington first agree.

To avoid such wheel-spinning, the two leaders should suggest negotiation of an EU-US political commitment to reduce farm subsidies by a certain date, dependent on agreement by the other major grain-producing nations. Such an initiative, drawing its inspiration from Sir Leon's proposal for a political commitment to create tariff-free trade in industrial products, would set the tone for the WTO farm talks without impeding the European timetable for reforming the Common Agricultural Policy.

A more ambitious initiative would be for Mr Blair and Mr Clinton to announce an exploratory EU-US dialogue on freezing farm export subsidies that have long been a budgetary drain on both sides of the Atlantic. US farm exports are expected to fall 6 per cent this year because of the east Asian financial crisis. Shrinking demand will undercut prices. US wheat growers are pressurising the administration to increase export subsidies. The US and the EU should declare a moratorium on new export subsidies, before a new export subsidy war breaks out, and develop a joint plan to negotiate their elimination.

All of these initiatives require political leadership on the part of both Mr Blair and Mr Clinton. The prime minister will need to refocus the European Union on transatlantic affairs at a time of domestic preoccupation. The French squashing of Sir Leon's proposal demonstrates it will be an uphill fight. The president must overcome lack of interest from a self-satisfied American business community and the fears of a Congress wary of further trade liberalisation. All this is a tall order. But nothing worth doing is ever easy. Like the proverbial bicyclist, transatlantic economic integration must continue to go forward or it risks losing its balance.

The author is a senior fellow at the Council on Foreign Relations

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday May 14 1998

Agonising over the atom

To the rest of the world, India's two further nuclear tests yesterday added insult to injury. New Delhi claimed its test series was now complete and repeated its willingness to sign up to parts of the Comprehensive Test Ban Treaty (CTBT). But yesterday's blasts must increase the likelihood of neighbouring Pakistan taking matching action and will fuel the debate over how the world community should respond. Nuclear proliferation will top the agenda of this weekend's Birmingham summit of the Group of Eight. The grouping is, however, already split over sanctions on India. Yesterday the US imposed economic sanctions while Russia and France said they would not do so.

When a country that has long vaunted the values of Gandhian non-violence tests doomsday weapons, it is tempting to conclude that the international regime to control the bomb has been blown to pieces. Not so. No less than 186 countries remain signatories to the 1970 Nuclear Non-Proliferation Treaty. Though there have been some suspected violations, the NPT has come to be regarded as the norm of international behaviour. This is one reason why the three important non-signatories - Israel, Pakistan and until this week India - have been so coy about admitting to nuclear weapons.

The CTBT was signed in 1996 with the aim of plugging the main gap in the NPT that allowed declared nuclear powers and non-signatories to go on developing weapons through testing. Getting it into force was never going to be easy. It requires ratification by 40 states with civil nuclear power. But one of these is India, which now apparently favours the pact.

The problem is that general treaty regimes just do not cater for the particular security concerns of countries in South Asia or the Middle East. These concerns were meant to be embraced by the NPT's call for multilateral disarmament. But this clause has remained a dead letter, except for desultory Geneva negotiations on a "cut-off" in fissile material production. There has, of course, been bilateral US-Russian nuclear disarmament. But further steps in this are now stalled in the Russian Duma. The end to the Cold War has removed the menace of nuclear war and therefore the momentum to nuclear disarmament.

India has now revived the menace. And reviving the momentum for disarmament is the proper response to India, rather than slapping knee-jerk economic sanctions on it. These sanctions are automatic under US law and understandable in the case of Japan with its anti-nuclear allergy. It is also true that the severer the sanctions on India, the more Pakistan may be deterred from treading the same dangerous path.

But pure punishment will not cow a country of India's size and prickliness, nor create a return to the status quo before the tests. The world's aim should be to ensure that India does not put nuclear weapons into regular production by, for instance, enticing it to sign the CTBT. In return, the west and Russia should relaunch nuclear disarmament and for the first time make an effort to widen it to China. India has claimed the reason for this week's tests is its "atmosphere of distrust" with China. This distrust needs dispelling.

Debt relief

Debt relief should be high on the agenda of the meeting of the Group of Eight heads of government in Birmingham this weekend. The leaders meeting there will be asked by the Jubilee 2000 campaign to forgive the unpayable debt of the world's poorest countries. The campaigners are right on the central point: the present approach should be made substantially more generous.

Policy is centred on the HIPC (heavily indebted poor countries) initiative, introduced in 1996. This agrees to write off the debts of the poorest nations, provided they stick to six years of International Monetary Fund programmes. But the lobbies for comprehensive relief argue that a total debt write-off is needed, since many countries spend more on debt service than on health and education.

This is simplistic. HIPCs, on average, receive a net inflow of finance, plus grants and foreign direct investment, totalling around 8 per cent of gross domestic product. The case for debt relief, as opposed to repeated short-term reschedulings, is that it reduces the bureaucratic burden and improves the confidence of foreign and domestic investors.

The HIPC initiative aims to reduce each country's debt to a "sustainable" position, judged by a ratio of the net present value of debt to exports of below 250 per cent and a ratio of annual debt service payments to exports of below 25 per cent. In the case of these countries, the ratios are far too high - a debt-export ratio less than 100 per cent and a debt service ratio less than 10 per cent would be far more appropriate.

G8 leaders ought to promise radical debt reduction for countries that have demonstrated good performance and should apply such terms retrospectively to countries whose relief operations have already been agreed. The qualifying period of six years is also too long. The UK initiative to speed up the process is welcome and should be endorsed. Also important is treating temporary lapses from strict compliance with IMF programmes rather more leniently.

The world's richest countries must show greater generosity to those poor countries that are making a real effort to improve their ways, often in enormously difficult circumstances. Generous debt relief will not solve their problems. But it would at least be a start.

Rate impasse

Yesterday's news from the UK labour market cast a sombre light on the Bank of England's wrangle over interest rates.

The Bank's latest Inflation Report, also out yesterday, suggested that "the pace of tightening in the labour market has now eased" and talked of a strengthening of sterling. But since the report was prepared, the trade-weighted value of sterling has fallen - it is now 5 per cent below its peak in March. And figures for April suggest that the fall in unemployment may be accelerating again.

More worrying, the annual increase in average earnings accelerated sharply to 4.9 per cent in February (5.6 per cent in the private sector). A few snowflakes do not make a winter. But these data, together with reports of skills shortages and the continued strength of domestic demand, tend to support the case for a further rise in UK short term interest rates.

This was argued forcefully by three members of the Bank's monetary policy committee in April. The arguments for a standstill by the five others included the continued appreciation of sterling and weaker than expected earnings growth, both of which now look questionable.

The reasons why rates were left unchanged at the latest meeting, in May, will not be published until next month.

However, the Inflation Report suggests that there are few grounds for complacency. The Bank's central forecast puts inflation below the target of an annual rate of 2.5 per cent up to 2000. But it will then be rising once more, as economic growth begins to accelerate.

This seems, on the face of it, a benign outlook. But there are two big risks. The first is that sterling might fall more steeply than expected, bringing joy to exporters, perhaps, but also fanning the embers of inflation. The second, related, danger is that excessive caution by the Bank would revive Britain's long-standing inflationary psychology. A recent survey showed that the general public expects inflation to be running at 5 per cent in two years' time, twice the government's target. In plain terms, most people do not believe the Bank will be tough enough.

In meeting its first big challenge, the Bank may find that broad credibility with the public may be at least as important as its expertise in dissecting the latest data. To achieve this it must show more resolution.

Battle of the bourses

The birth of the euro could add to growing pressure on London as a financial centre. But, argues Simon Davies, the City could turn the single currency to its advantage

For more than a century, London has been at the heart of the financial markets of Europe. But the City's position is looking vulnerable, particularly with the arrival of the single currency of which sterling is not a part.

From London's point of view, the birth of the euro comes at an awkward time. Britain no longer has any powerful investment banks following the recent sale of the equities businesses of both Barclays and National Westminster to foreign banks.

As if this were not enough, the London International Financial Futures and Options Exchange (Liffe), Europe's largest futures market, has lost its pre-eminent position in German bund futures, Europe's most important government bond contract. London's open-outcry market has been elbowed aside by an upstart electronic system at the Deutsche Terminbörse in Frankfurt. Although Liffe plans to respond by going at least partially electronic, Jörg Franke, the DTB's boss, has described it as "a psychological victory for Frankfurt".

Electronic trading makes it easier to shift location, potentially loosening London's grip. "The DTB has shown Liffe and everyone else that, when there is something better, the financial markets will move," says Howard Lutnick, president of Cantor Fitzgerald, the US securities firm.

Frankfurt has scored other victories too. Deutsche Bank, which had alarmed the German establishment by relocating most of its investment banking business to London, has recently put its focus back on Frankfurt. A new trading floor there will run its euro-denominated debt business, which could soon dwarf the volumes of its London team.

Meanwhile, the London Stock Exchange's new order-driven trading system has had teething problems beyond its worst fears. In the long run, the new system is vital for attracting trading in euro-zone shares. But so far it has looked more like a deterrent.

All this is happening at a time when London's "franchise" as the centre for Europe's largest markets is under threat. From January, the largest single currency, stock and bond markets will be denominated in euros rather than sterling. That is bound to stir a vast euro-oriented institutional investor base.

There is an intense European effort to prise business from London. One of the aims of economic and monetary union is the creation of a unified single currency capital market to match that of the US. Many European politicians think control of these markets should be a privilege of Emu membership.

London could, for instance, be squeezed by a push to build up a new Europe-wide benchmark for bank lending: Euribor. The aim would be to challenge the current benchmark, the London Interbank Offered Rate, or Libor, which is set in London.

Euribor takes prices from a far wider range of European banks, and is considered by many to be unwieldy and less representative of genuine market rates. But there have been signs of political pressures on European banks to adopt Euribor. And the DTB is expected to launch Euribor futures contracts.

The winner in this struggle between Libor and Euribor will provide the benchmark for all short-term lending in euros. If that is set outside London, it could have a big psychological impact on the City's position as a banking centre.

Another potential battleground will be the longer-term benchmark yield curve; this provides bond yields for a series of maturities, from one year to more than 30, against which new bond issues can be priced. In the US, the benchmark is US Treasury bonds. In Europe it is expected to be a variety of government bonds, depending on their relative liquidity.

"If the bund becomes the benchmark for Europe, then Frankfurt has an excellent opportunity to become the European capital markets capital," argues Mr Cantor. "But without actions on transparency and regulation in Europe, London will probably be the financial centre by default."

There are other initiatives to take business away from London. The Euro Alliance, formed between the Swiss, German and French exchanges, is aimed at forming a common base for trading first derivatives, and eventually shares. The aim is to build a one-stop pan-European securities market which could, in theory, more than match London for speed of execution and price.

The Euro Alliance has agreed to launch futures contracts based on the Dow Jones Stoxx family of indices, in the hope of building up a leading benchmark for European investment. This will again pit them against Liffe, which has backed the Eurotop indices, launched by FTSE International and the Amsterdam Exchanges. The battle here could mirror that in the futures markets between Liffe's Euro Libor interest rate contracts, and the DTB's Euribor products.

Yet even if more futures contracts were traded outside London, this would not necessarily be disastrous for the City. "In the US, you have the reference points [for Treasury bonds] in Washington, the futures exchanges are physically located in Chicago, but the capital markets are in New York," says Thomas Juterbock, head of US and European government bond trading at Morgan Stanley Dean Witter. "In an electronic environment, people will be physically located wherever they want to be."

This suggests that the success or failure of Liffe may have limited repercussions for London.

"London has enough of a head start in fixed income and derivatives to dominate the scene," says Joe Cook, global head of capital markets at JP Morgan. "Its major threat comes from structural and regulatory changes, rather than market forces."

Indeed, there are plenty of restrictive practices entrenched in the domestic European markets which, if enshrined on a pan-European basis, could cause London problems. Mr Cook is particularly concerned about moves to introduce a European withholding tax on savings, which would tax at source European buyers of European-issued bonds. "It could create a significant impediment to the free flow of capital in a sector that purports not just to be a pan-European market, but a market of global importance," he says.

Amendments to the initial proposals are likely. But in the worst-case scenario, if the UK refused to accept the proposals because of the potential damage to the eurobond markets, it could lead to the creation of a two-tier European bond market.

In all of this, it should not be forgotten that London has a number of in-built advantages. English remains the undisputed *lingua franca* of finance, while London has an established pool of skilled labour. It also has a cost advantage, helped by lower taxes and more flexible labour laws.

London's strengths have been underlined in the run-up to the euro. Instead of moving to the continent, many US banks, which previously had offices scattered all over Europe to reflect the diverse currencies, have if anything tended to concentrate their operations in London. In other words, Deutsche Bank has been swimming against the tide.

"The greatest advantage financial markets can have is the flexibility to adapt," says Gavin Casey, chief executive of the London Stock Exchange. "That is something London has always had, and you cannot get it by diktat."

London has flourished in the face of restrictive practices in the past. The eurobond, which developed into one of the most profitable markets for London, was born of tax and regulatory restrictions in the US. It converged on London in spite of the fact that it was linking non-UK issuers with primarily non-UK investors.

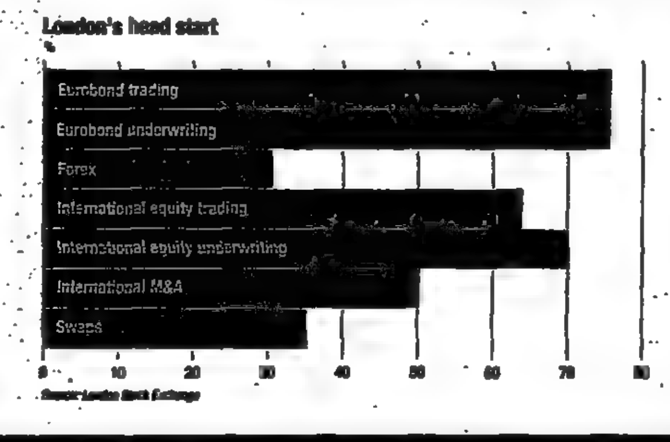
Hans-Joerg Rudloff, one of the architects of the eurobond market and now chairman of the executive committee of Barclays Capital, thinks that London, far from suffering, could turn out to be the greatest beneficiary of the development of the single currency.

But Mr Rudloff warns against complacency. He argues that London had the opportunity to become the trading centre for all European equities in the late 1980s, but it gave continental exchanges the chance to catch up.

"It is not only the complacency of the British institutions that has to change, but that of the British [commercial] banks. You don't want to have the same thing happen as with the investment banks, which are now all owned by foreign institutions."

Another senior City figure agrees that London has the potential to gain, at least in the medium term. "In the next five years, I think there will be very great benefits to London from continuing to be the leading financial centre in Europe. But in the long run, if we are not part of Emu, there is the risk that activity will gravitate towards one or other of the alternative European centres."

London's head start



Source: London Stock Exchange

OBSERVER

Counter claims

Haris Stamatopoulos isn't having much luck communicating with his striking workers. The low-profile governor of Ionian Bank didn't seem too happy yesterday when he arrived for work at Ionian's neo-classical headquarters in the centre of Athens to find his way barred by angry employees and insistent television cameras.

"You haven't looked after us," shouted the strikers. "Stay out." Stamatopoulos took the hint, and took himself off to another Ionian building for the day.

Ministers have decided to privatise the country's third-largest bank as they fall over themselves to convince the rest of Europe that Greece will be ready to jump on board the new single currency in a few years.

Stamatopoulos used to run ETEVA, a Greek investment bank that has co-operated on privatisation projects with HSBC and Salomon Brothers among others, so he shouldn't find selling Ionian too tough a task – though he hasn't made it easier by extracting a commitment from ministers that whoever buys it will have to guarantee all 3,000 jobs.

The bank workers' union says ministers should merge Ionian with its parent group, Commercial Bank, as only big Greek banks will survive competition from efficient foreigners after the euro's launch. Stamatopoulos hasn't managed to persuade the punters that mergers generally mean job losses, while a sale has job guarantees attached.

If he can't get through, he could concentrate on his other job, as chairman of the Athens Airport Company, a partnership between the Greek state and Germany's Hochtief group which is building a new airport. Maybe people in the aviation business communicate better than bankers.

Post haste

Britain is empty-handed after the carve-up of top European Union jobs under its six-month presidency: the division of spoils at the European Central Bank leaves the UK wondering where to pitch next.

The assumption in London is that Jacques Santer has no appetite for a second term as president of the European Commission when the first expires in January 2000, but British premier Tony Blair is keeping mum about a possible British candidate.

In any case, say insiders, it makes sense to wait a few months to see whether former Spanish prime minister Felipe González or Giuliano Amato, one of Italy's many ex-premiers, show their hand. Possible UK contenders include EU transport commissioner Neil Kinnock, former Hong Kong governor Chris Patten and ex-chancellor Kenneth Clarke.

Even if a Briton didn't get the job, putting up a candidate would strengthen Blair's hand in securing other plum posts – like the new Brussels-based job to project Europe's fledgling common foreign and security policy. The British – along with the French – fancy themselves as foreign policy buffs, though some see the job as a poisoned chalice because member states are still reluctant to allow Brussels to speak in their name.

One option gaining favour is a play for the secretary generalship of the European Council secretariat – in charge of preparing those ever more frequent EU summits – which should fall vacant next year. The job is potentially one of the most powerful in Brussels: after all, real clout often lies with those the public rarely see.

Poll position

Sometimes on his round of foreign trips, US President Bill Clinton must offer a silent prayer of thanks that he has fought his last election. As he swanned around Berlin yesterday, there was the usual quota of demonstrators keen to get placards bearing domestic political messages in front of any camera lens that came their way.

Not that a beaming Chancellor Helmut Kohl was in any way reluctant to use the visit of the US president bolster his flagging electoral fortunes.

Clinton made sure he also got to meet Kohl's social democrat challenger Gerhard Schröder. If the German polls have got their sums right, the US president will be seeing a lot more of Schröder – especially at summits after September's election.

An SPD minister in Brandenburg said Clinton's presence would help Schröder, as it "makes people realise they want a young leader" while Kohl, on the other hand, says "we need wisdom". What that says about SPD attitudes to their chancellor candidate is anyone's guess.

Kissing cousins

There will be none of that electioneering nonsense in the UK when Clinton touches down tomorrow for the G8 summit: the British settled their electoral business last year. But there has been a different sort of contest in the streets of Birmingham, the summit venue, over the past few days.

Some poor unfortunate, drawn from the ranks of Britain's security service, pretended to be the most powerful man on earth while his colleagues ferried him around testing out their space-age tracking systems and protection measures. The US agents acting the role of "enemy" managed to hit their target.

If you watch very carefully, you might just see a smug smile twitch the stony faces of the American security agents who'll be forming their usual scrum around the Chief tomorrow in regulation Calvin Klein sunglasses and telephonic shirt cuffs. It must be very satisfying to get one over on the limey enemies – sorry, allies.

The Financial Times

100 years ago

Grand Old Man Of The Transvaal

For an old gentleman of 73, or thereabouts, President Kruger displays a liveliness and vivacity which speak well for the preservative effects of the air of the Transvaal. Our Paul has now entered upon his fourth term of office as President of the Transvaal Republic, and the speech he has just made in Pretoria to the citizens and to the crowd of armed and unwashed burghers who flock in from the surrounding country on these occasions is quite equal to any of his former performances. Still, we are afraid that those connected with the mining industry will not find very much to encourage them.

50 years ago

World Starvation Peril

In his valedictory speech as chairman of the United Nations Food and Agricultural Organisation last week, Sir John Boyd-Orr gave a stern warning of the starvation peril confronting the world. This has followed by a clarion call from Lord Bruce, the chairman of the World Food Council. He asks for immediate action on a world-wide scale to expand food production.

FINANCIAL TIMES

THURSDAY MAY 14 1998

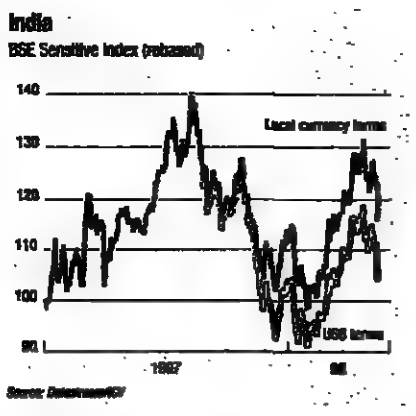
THE LEX COLUMN

Investment fall-out

India has blown away its status as an Asian safe haven for investors. This week's nuclear tests have knocked 6 per cent off equities in Bombay, and twice that in the more liquid market for Indian shares in London. Bonds and the rupee have also suffered.

While the direct economic impact of western sanctions is minimal, the consequences of political isolation could be severe. If international funds flee, interest rates will have to rise to defend the currency, hurting an already slowing economy. And if the US moves to block World Bank loans to India, it could kybosh necessary infrastructure spending. There may yet be a silver lining.

Having flexed its military muscles, India might finally be persuaded to sign a nuclear non-proliferation treaty – allowing sanctions to be quickly lifted. Meanwhile the government's tough stance has won it plaudits at home, perhaps allowing it to push through unpopular economic reforms. But for now investors should tread warily.



Source: Datastream/ICV

Paper bids

Each week brings another gigantic paper bid. Last week was Daimler/Chrysler, this week SBC/Ameritech. With share prices soaring, using paper as an acquisition currency is sensible. Even the biggest companies are hard-pressed to find $40bn-plus in cash. And if one can pay with one's own highly-rated paper it matters less that prices are so expensive.

But how should such paper bids be valued? There are several approaches, which can give widely different answers. One of the most popular is to use the acquirer's share price before the deal is announced. But that suffers from the fact that takeovers often create value that is not captured in the pre-announcement share price.

Hence, another popular approach – using the acquirer's share price after the deal is announced. This is better, but still suffers from two defects. First, the acquirer's share price may not move to reflect the full value creation because of doubts over whether the deal will go through. Even if there is no uncertainty, using this technique means one has to accept the market's view of how much value is being created. Such thinking leads to a third method: make one's own explicit estimate of how much value is being created and use that to calculate what the deal is worth.

This is the main approach Lex plans to use. What answers does this technique produce for DaimlerChrysler? The first step is to take the market value of each company before the deal leaked: $52.8bn for Daimler and $29.4bn for Chrysler. Then add the amount of value being created – roughly $18bn – to give $100.2bn for how much the combined DaimlerChrysler should be worth. Daimler shareholders will receive 57.2 per cent of the new company and Chrysler's 42.8 per cent. So the deal values Daimler at $57.3bn and Chrysler at $42.9bn.

The deal is good for both groups of shareholders. But using this technique, it is clear Chrysler's have captured an even bigger share of the spoils than originally thought. They receive $13.5bn of the added value, equivalent to a 46 per cent premium. Daimler's get a more modest $4.5bn, or 9 per cent.

UK inflation

So George Soros is thought to be trying to beat down the pound again. Even if true, a repeat of the 1992 debacle this is not. For one thing, the Bank of England will not be obliging him with a futile defence of a fixed exchange rate level. Over at the Treasury, meanwhile, far from viewing proceedings with dismay, Gordon Brown, the chancellor of the exchequer, will be positively egging him on. What better way of lining up sterling to join the euro at a favourable exchange rate?

Yesterday's inflation report, however, is a reminder that a further fall in sterling is far from assured. True, the inflation outlook is better than at the time of the February report, helped by a slowing economy and strong pound. But developments not covered by the report already threaten to overtake this. Yesterday's labour market figures show average earnings jumped by a startling 4.9 per cent in the year to February. Sterling, meanwhile, has fallen by around 3 per cent since the report was drafted.

Ironically, sterling strength and a stable earnings outlook were what persuaded Professor Charles Goodhart to join the interest rate doves at the time of the April monetary policy committee meeting. Might he and others now be persuaded to join those arguing for higher rates? It is, of course, too soon to tell. Perhaps the earnings data were distorted by the City bonus round. Even so, given how finely balanced the situation remains, expectations of falling rates look overdone.

IBJ/Nomura

Perhaps Japan's Big Bang will not be the damp squib initially feared. Admittedly, the alliance between IBJ and Nomura has a distinctly Japanese flavour – tentative in ambition and vague in detail. But it also bears the unmistakeable hallmark of change: a top bank and top broker joining forces for the first time to see off the foreign infidel. Moreover, if the top dogs feel the need to combine in order to compete, it is surely only a matter of time before the weaklings follow suit.

Should foreigners be concerned? They have innovation and technology on their side, but the combination of Nomura's distribution and IBJ's corporate client list is powerful. Life, of course, will get really interesting if this serves as a precursor to a more far-reaching alliance. For now, though, institutional rigidities, albeit breached slightly by this announcement, remain a significant obstacle. Meanwhile, notice has been given that derivatives and asset management are where some big battles will be fought.

NY mayor gives striking cab drivers a rough ride

By John Labate and Daniel Bögler in New York

A one-day strike by New York City taxi-drivers yesterday brought a temporary end to mid-town Manhattan gridlock, as a surprising number of cabbies came out in protest against the mayor's "Quality of Life" campaign.

The proposals include drug and alcohol tests for new cabbies, increased liability insurance premiums and higher penalties for traffic violations.

Mayor Rudolph Giuliani yesterday dismissed the taxi-drivers' protest. "They are fighting for the right to drive recklessly," he said.


Rudolph Giuliani: 'They can stay home forever as far as I'm concerned.'

Many of Manhattan's taxis stayed off the streets, forcing investment bankers and business executives to walk or take a chance with the city's subway system.

But although the protest led to long delays for travellers trying to take taxis to and from the city's airports and bus stations, other car-borne commuters benefited from an uncharacteristically smooth ride into town.

"Fifth Avenue looks empty," said Rene Ochart, doorman at the Pierre hotel, just before lunchtime.

Mr Giuliani, characteristically blunt, said the lack of taxis made the city cleaner: "They can stay home forever as far as I'm concerned."

Scores of cabs sat idle, parked outside garage spaces as drivers went on the streets to distribute leaflets to win public support. The New York Taxi Workers Alliance, the main union behind the strike, said 99 per cent of the city's 12,000 cabs were not on the road.

That figure was disputed by the New York City Taxi and Limousine Commission, which regulates the city's cabs: "I highly doubt it's 90 per cent," it said, "but it is impossible to give a number."

Under the new rules, cabbies convicted of driving while intoxicated will automatically have their licences revoked. Previously, they could expect a temporary suspension and a fine of up to $350. The penalty for smoking in the cab or being rude to passengers will be raised from $25 to $150.

Union officials said their main complaint was that they felt ignored by the city authorities. Biju Mathew of the Taxi Workers Alliance, said: "We are all for driver and rider safety but the city creates these rules without any input from the drivers."

The city has 44,000 licensed taxi drivers.

S African taxi drivers' nightmare, Page 8

Euro MPs back Duisenberg but disapprove of political deal

Assembly seeks to thwart bank president's intention of quitting halfway through term

By Samer Iskandar in Strasbourg

The European Parliament yesterday approved the nominations of the president and five board members of the future European Central Bank, but signalled its disapproval of the political deal that crowned the process.

In a politically important but legally non-binding vote, the European Union's assembly backed the choice of Wim Duisenberg of the Netherlands as bank president by 439 votes to 40 with 59 abstentions. The other five nominees were approved by similarly large majorities.

But deputies also adopted an amendment that sought to obstruct Mr Duisenberg's declared intention of resigning halfway through his eight-year term to make way for Frenchman Jean-Claude Trichet.

It was widely believed that Mr Duisenberg's decision, announced at an EU summit earlier this month in Brussels, was forced on him by national governments, which had caved in to pressure from Jacques Chirac, France's president.

The deal gave rise to accusations that the ECB had been contaminated by political interference even before it had opened its doors for business.

The parliament's amendment, proposed by the Liberal Group of MEPs, called on Mr Duisenberg to avoid the "early or simultaneous succession of both the president and vice-president".

As the EU's 1992 Maastricht treaty limits the ECB's first vice-president to a term of only four years, the amendment represents an attempt to keep Mr Duisenberg in his post for longer than the four years agreed in the deal hatched by EU leaders.

The ECB's first vice-president is to be Christian Noyer, former head of the French treasury.

Christa Randzio-Plath, the parliament's rapporteur on the six ECB nominees, said the amendment aimed to ensure that "all candidates feel they are free from political pressure".

She insisted that July 2002, the middle of Mr Duisenberg's term, was an inappropriate time for the president to resign because of the coincidence of several events, such as Mr Noyer's departure and the disappearance of national notes and coins in the 11 countries adopting the euro.

José-María Gil-Robles, the parliament's president, said: "This [amendment] might help underline the important role he [Mr Duisenberg] has to play in [guaranteeing the ECB's] independence." He renewed his attack on the nomination process.

The amendment – deliberately vague to reduce the chances of its being rejected – was adopted by 214 votes to 215 with 10 abstentions.

CONTENTS


US first lady Hillary Clinton on a visit to Paris, with Bernadette Chirac, wife of French president Jacques Chirac. Closer ties, Page 2 Reuters

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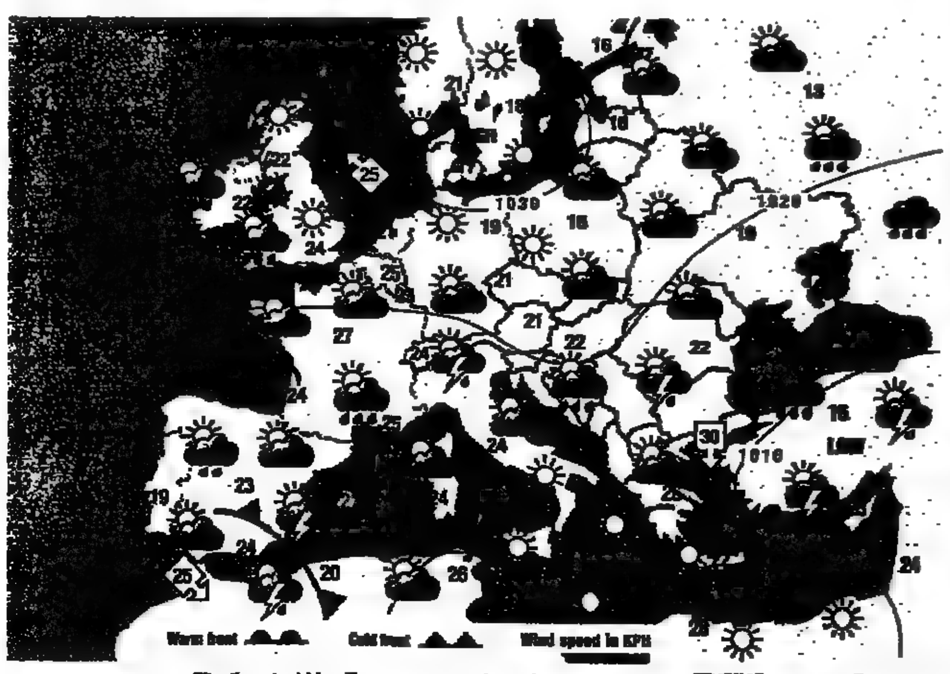
FT WEATHER GUIDE

Europe today

Scandinavia will be mostly dry with plenty of sunshine. The north will be cooler with occasional showers. Much of central, western and eastern Europe will be dry and warm with long sunny periods. Southern areas will be more unsettled with afternoon thunderstorms, especially over the Alps. Southern Russia, Ukraine and Turkey will be cloudy with rain and thunderstorms. Spain and Portugal will have more thundery showers, but most of the Mediterranean will be dry and mainly sunny.

Five-day forecast

Scandinavia will remain mainly fine and dry, but breezes and showers will spread into the north by the weekend. Western Europe will become unsettled, but the north-west will stay mainly fine and dry. Much of the Mediterranean and the Alps will become unsettled with some thundery showers.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	38
Accra	Fair	33
Algiers	Shower	20
Amsterdam	Sun	22
Athens	Fair	26
Atlanta	Sun	31
B. Aires	Thunder	14
B.ham	Fair	23
Bangkok	Fair	37
Barcelona	Rain	21
Beijing	Sun	26
Belfast	Fair	22
Belgrade	Fair	21
Berlin	Sun	19
Bermuda	Rain	26
Bogota	Shower	20
Bombay	Sun	34
Brussels	Fair	25
Budapest	Fair	22
C.hagen	Sun	17
Cairo	Sun	27
Caracas	Fair	31
Cardiff	Fair	24
Casablanca	Shower	21
Chicago	Fair	29
Cologne	Sun	25
Dakar	Fair	26
Dallas	Fair	31
Delhi	Sun	38
Dubai	Sun	37
Dublin	Fair	22
Dubrovnik	Fair	24
Edinburgh	Fair	21
Faro	Fair	21
Frankfurt	Fair	23
Geneva	Shower	24
Gibraltar	Shower	22
Glasgow	Fair	22
Hamburg	Sun	18
Helsinki	Shower	16
Hong Kong	Cloudy	31
Honolulu	Sun	30
Istanbul	Cloudy	19
Jakarta	Fair	33
Jersey	Fair	20
Johannesburg	Sun	15
Karachi	Sun	39
Kuwait	Sun	39
L. Angeles	Fair	18
Las Palmas	Fair	24
Lima	Fair	26
Lisbon	Fair	19
London	Sun	24
Lux.bourg	Fair	23
Lyon	Shower	25
Madeira	Fair	21
Madrid	Fair	23
Majorca	Thunder	22
Malta	Sun	25
Manchester	Sun	24
Manila	Shower	33
Melbourne	Sun	[illegible]
Mexico City	Sun	32
Miami	Sun	33
Milan	Fair	26
Montreal	Sun	24
Moscow	Fair	13
Munich	Fair	21
Nairobi	Fair	27
Naples	Fair	26
Nassau	Fair	30
New York	Sun	23
Nice	Fair	23
Nicosia	Thunder	28
Oslo	Sun	21
Paris	Fair	27
Perth	Sun	23
Prague	Sun	21
Rangoon	Sun	34
Reykjavik	Rain	9
Rio	Fair	21
Rome	Sun	24
S. Frsco	Fair	18
Seoul	Sun	25
Singapore	Thunder	32
Stockholm	Sun	18
Strasbourg	Shower	24
Sydney	Shower	21
Tangier	Cloudy	21
Tel Aviv	Shower	26
Tokyo	Fair	23
Toronto	Sun	25
Vancouver	Rain	12
Venice	Shower	25
Vienna	Sun	21
Warsaw	Fair	18
Washington	Fair	24
Wellington	Shower	11
Winnipeg	Shower	24
Zurich	Fair	22

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Growth without frontiers for Sanluis
Mexico's Sanluis Corporación is a perfect advertisement for the North American Free Trade Agreement. Before Mexico joined Nafta in 1994, Sanluis was a medium-sized gold and silver producer that had diversified into manufacturing auto parts. Today, it can hardly keep up with the orders from the big three carmakers in Detroit. Page 23

Tough choices for Murdoch
The US justice department's blocking of News Corporation's plan to fold its ASkyB satellite television business into Primestar, a consortium controlled by cable operators, leaves Rupert Murdoch with two options. He could give up trying to break into the US satellite TV market or do a deal with a leader in the multichannel sector. Page 18

Siemens and Puma jump in Dax rise
The Dow's opening surge pushed the Xetra Dax index above the 5,400-point level in Frankfurt, but it fell back in late trading to close at 5,371.99. Recent underperformer Siemens, the engineering group, and Puma, the sportswear manufacturer, were among the biggest gainers. Page 38

Pemex invites refinery tenders
Pemex, the state-owned Mexican oil monopoly, has invited tenders for an overhaul of three oil refineries. The tenders – to build 23 new plants and modernise 11 others – are part of a plan to end Mexico's dependence on gasoline imports by 2001 and raise refining capacity of sour crude. Page 28

Nicaragua looks to the land
Nicaragua's leaders believe the key to economic recovery lies in the rural sector and they are making agriculture a cornerstone of their bid for growth. President Arnoldo Alemán, a former coffee sector leader, says his country can once again become the bread-basket of the region. Page 28

Pound gains as UK earnings jump
The pound rallied on signs that UK inflation might not be dead yet. However, it gave up most of its strong early gains, suggesting that sentiment on sterling remained poor. Page 27

The making of the mega-merger Page 19

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Roche hit by Xenical doubts

Anti-obesity drug launch postponed in US as FDA demands further data on breast cancer risk

By Daniel Green

Shares in Roche, the Swiss drugs company, fell sharply yesterday after US health regulators postponed the launch of the company's anti-obesity drug, Xenical, by demanding further safety data.

The Food and Drug Administration issued a "letter of approvability", which normally leads to full approval but included conditions requiring Roche to submit further safety data relating to the incidence of breast cancer in people taking the drug.

Trials are still under way and results will not be ready for the FDA until the first quarter of 1999. If they satisfy the agency, a product launch is likely a year from now.

Roche certificates, the most heavily traded class of the company's shares, fell SFr220 to SFr15,475 in Zurich, having opened at SFr15,995 as some in the market anticipated unconditional approval.

The FDA was forced last year to ban Redux, an anti-obesity drug made by American Home Products of the US, after a significant proportion of users developed heart valve problems.

Redux was one of the most successful product launches in the industry, demonstrating the unsatisfied demand, especially in the US, for drugs to reduce weight.

Xenical has been given the go-ahead by European regulators and has been approved by regulators in Latin America and Asia. Roche plans to launch Xenical later this year.

Roche said it was pleased with the FDA's decision and regarded it as a milestone in reaching final approval in the US.

But a London-based pharmaceuticals analyst said the announcement was not as good as Roche would have liked.

"The drug was given an expedited review in which the FDA had to give its verdict on the drug within six months," she said.

The decision effectively cancelled the benefits of the expedited review for Roche at least and opened up the possibility of further delays.

Analysts at stockbrokers Lehman Brothers are forecasting annual sales after 2007 of $1bn a year even after yesterday's delay.

Any Xenical side-effect problems are unlikely to be similar to those encountered with Redux and other slimming treatments. Xenical works by slowing the absorption of fat from the digestive tract by about 30 per cent. Other treatments have focused on modifying appetite though action in the brain.

Roches estimates that obesity, one of the world's most widespread and costly conditions, affects 200m people around the world, more than one quarter in the US. It leads to a series of disabling and life-threatening illnesses such as diabetes and heart disease.

Republic to raise $2bn in waste split-off

By Nikki Tait in Chicago

Republic Industries, the car dealerships and rentals chain built up over the past three years by Wayne Huizenga, the Florida-based billionaire, is to split off its waste management business, raising close to $2bn in the process.

It will use the cash to fund even more acquisitions on the car side. It said the separation reflected the fact that the car business had now achieved a "critical mass". "We have publicly stated that we wanted to be a pure play [as a car-retail stock]," said Steve Berrard, Republic's president.

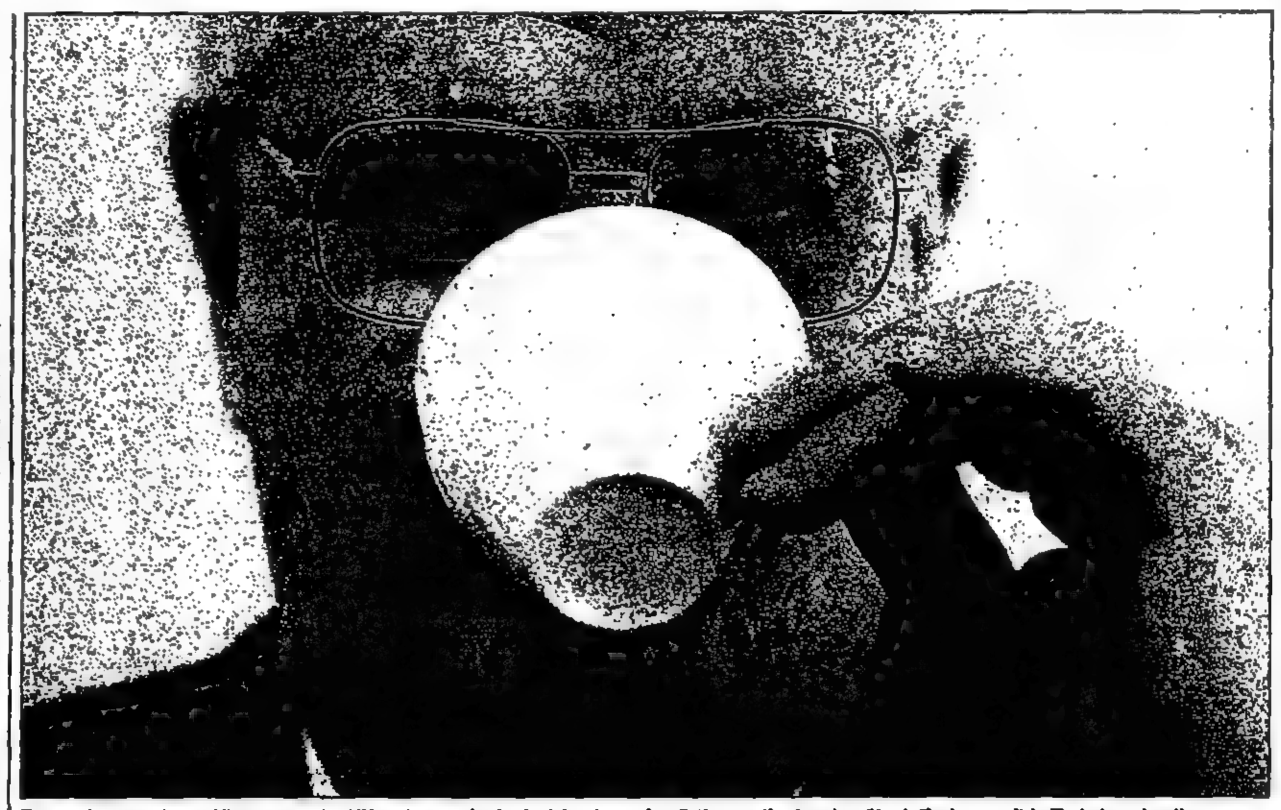
Republic plans to sell between 25 and 30 per cent of the "A" shares in its waste business via an initial public offering in the second or third quarter. This is expected to raise between $1.5bn and $2bn, according to the company, although Mr Berrard said that he would be "disappointed if [the figure] was not close to $2bn". Republic will retain a voting interest of just over 80 per cent.

The remaining equity will be spun off to Republic shareholders in a tax-free distribution next year.

Although recent attention on Republic has focused on its car operations – in particular on its efforts to make the purchase of secondhand cars a more enjoyable experience by offering customers large, comfortable salerooms and no-haggle prices – the waste operations are a significant business. With sales last year of $1.3bn, they form the fourth largest solid-waste collection operation in the US. If Republic achieves its $2bn goal, the total market capitalisation of the waste company would be around $6bn.

Waste services is the business in which Mr Huizenga first established his reputation, when he helped build up the Chicago-based Waste Management group in the 1970s and 1980s. The strategy then was to purchase numerous small businesses in stock-funded deals, and achieve rapid industry consolidation – an approach Mr Huizenga is currently attempting with Republic's car dealerships.

However, Wall Street has wearied of the amount of stock issued by Republic to fund its car dealership deals, and the share price has slipped. The $2bn cash inflow from the waste IPO would allow Republic to continue its acquisition programme on the car side through cash deals, without flooding the market with more paper. Yesterday, Republic shares were little changed by lunchtime in New York at $27 7/16, up 5/16.



Tetley chairman Leon Allen toasts the UK teabag maker's decision to seek a listing on the London Stock Exchange. It is likely to value the group, bought from Allied Domecq in a management buy-out for $317m in 1995, at more than $570m. Report, Page 24. Picture: Brendan Corr

Cable and Wireless to launch its services in 20 European cities

UK telecommunications company to target niche markets and business

By Alan Cane

Cable and Wireless, the UK's second largest telecommunications company, is planning to launch operations in more than 20 European cities as it moves to re-establish its image and branding on the continent.

Dick Brown, C&W chief executive, said yesterday: "We will have facilities-based licences for fixed wire services in 12 European countries by the end of the year. We will be targeting business customers and niche markets."

The company already holds operating licences in the UK, the Netherlands, Sweden and Ireland. Stephen Pettit, C&W executive director for Europe, said he expected to secure French, Italian and Belgian licences within two months, with Germany and Spain to follow by the end of the year.

The company plans to invest about £100m ($167m) over the next two years to install high capacity telecoms switches in each city capable of handling voice and data transmissions.

A network based on the most advanced data transmission technology, ATM, will connect Paris, Brussels, Zurich, Dusseldorf, Munich, Geneva and Vienna with the UK and the US.

Mr Brown outlined his strategy for Europe during the announcement of the group's results for the year to March 31. C&W has had only a nominal presence in Europe since it pulled out of an alliance with the German company Veba a year ago. The new strategy is intentionally low key and low cost.

An alliance with Telecom Italia, announced four weeks ago, provides C&W with what Mr Brown describes as "bookends" for Europe within which he plans to establish a network of licensed operations identified by the C&W brand.

C&W will establish sales offices and sales staff in individual cities seeking two kinds of business. First, to operate as a carrier's carrier, moving competitors' traffic over its international network. Second, to attract high value business customers to whom it can offer a range of advanced services. "We intend to be the global transport company," Mr Brown said.

The figures came in slightly above market expectations with profit before tax 54 per cent ahead at £2.18bn (£1.42bn), including £487m in exceptional profits.

Group turnover was 19 per cent up at £7bn (£6bn). Earnings per share came in 96 per cent ahead at 57p (30.3p) and a dividend of 12.25p (11.1p), a 10 per cent improvement, will be paid.

Mr Brown said: "We have achieved double digit growth in both revenue and profit despite major strategic investments and adverse economic conditions in Asia. Our strong growth rate in revenue compares to just 7 per cent two years ago. Today's results symbolise the transformation of C&W into a high performance operating company."

The exceptional profits include £519m for the sale of a 5.4 per cent stake in Hongkong Telecom and a £516m compensatory payment for the premature loss of HKT's exclusive international licence.

Allianz head rules out global expansion

By Andrew Fisher, Christopher Adams and Jane Fuller in Munich

Allianz, Germany's biggest insurance group, has rejected the idea that it might try to develop into a global financial services concern by raising its bank shareholdings into majority stakes.

Henning Schulte-Noelle, the chairman, said in an interview with the Financial Times that it was hard for big banks and insurance companies to combine globally, since their businesses were too different. "To become a fully-integrated financial concern on a global basis is just out of reach for anyone – at least for the moment."

But he did expect more big cross-border deals in Europe's insurance sector, where consolidation has begun to accelerate ahead of economic and monetary union.

While he saw a role for large groups and more specialised regional companies, he said medium-sized operations with less of a clear profile would have a harder time.

"It will be difficult for them to spread out. Companies that persist with a national attitude won't be able to resist this trend in the long run either," he said. "Market pressures are getting stronger and stronger."

Allianz, which has just bought control of Paris-based Assurances Générales de France, would stick firmly to insurance, but would also co-operate with banks on the product distribution side and in asset management.

Allianz did not therefore plan to increase its large minority holdings in German banks to controlling stakes.

It owns 23 per cent of Dresdner Bank, Germany's second biggest bank, and will have a 17 per cent stake in the new operation to be created from the merger of Bayerische Hypotheken-und Wechselbank and Bayerische Vereinsbank.

There has been stock market speculation that Allianz might use its influence with these banks to form a broad insurance and banking group to rival Deutsche Bank, Germany's biggest bank.

But Mr Schulte-Noelle dismissed this notion. "We have no plans to take over the majority of any big bank – why should we?"

The group planned to co-operate with Dresdner in asset management, with details likely to be finalised later this year.

Mr Schulte-Noelle identified the UK, where Allianz has a relatively small market share, as a key avenue for future expansion.

"Given the concentration among big players in the [UK] market, we are not in a position we should feel comfortable with over the medium to long term," he said. "We are interested in strengthening our position. But integrating AGF has to be our priority."

French Matif exchange set to end open outcry trading

By Edward Luce

Matif, France's derivatives exchange, will almost certainly close its "open outcry" floor trading operation within the next few months. It introduced electronic trading only four weeks ago with the expectation of operating a "hybrid" system for a lengthy period.

Jean François Théodore, chairman and chief executive of Matif, said in an interview with the Financial Times yesterday that the market had "unmistakably" shown its preference for electronic trading over open outcry.

The proportion of contracts traded on Matif's open outcry system has dropped from 100 per cent to less than 10 per cent in just 21 trading days. The number of floor traders has dropped to just 100 from more than 400.

"We are very surprised by the speed with which the market has expressed its preference," said Mr Théodore. "The conclusion is very clear: even for short term interest rate contracts the market prefers to trade on the screen."

News of the rapid demise of Matif's floor trading system leaves the London International Futures and Financial Options Exchange as the only remaining derivatives market in Europe with a floor-based operation.

Proponents of a rapid switch to electronic trading at Liffe are likely to be disappointed by a reform package which the exchange will submit to its 215 members next week. Hopes had been raised that the exchange would bring forward plans for an electronic platform scheduled for the last quarter of 1999.

But insiders say the board has rejected proposals to use Matif's NSC-VF electronic trading system which would have enabled Liffe to offer daytime electronic trading much earlier. Instead, the exchange is likely to develop its own system although it still has the option of permitting the daytime trading of contracts on its after-hours electronic system.

The switch at Matif, expected to lead to the imminent closure of the trading floor, has taken some market participants by surprise. But leading brokerages on the exchange, that are training their former floor traders to cope with the new electronic system, say the switch is permanent. "Once the critical mass moves into electronic then floor trading withers very quickly," said one broker.

NEWS DIGEST

RETAILING

Kmart continues recovery with $47m after tax

Kmart, the US retailer, continued its recovery from heavy losses as its after-tax earnings rose to $47m in the three months to the end of April, or 10 cents a share, compared with $14m the year before. The latest period marked the eighth consecutive quarter in which Kmart has seen an improvement in its earnings per share, said Floyd Hall, chairman.

The US mass-market retailer said it had benefited in particular from higher clothing sales, with a rebound in women's clothing leading to a double-digit increase in sales. Mr Hall added the company had succeeded in cutting its inventory levels from a year earlier.

The company, which has more than 2,100 stores in North America, registered a 3.5 per cent increase in sales in the period, to $7.52bn. Cost-cutting efforts resulted in a fall in selling, general and administrative expenses from 20.5 to 19.3 per cent of sales. However, the cost of sales rose faster than revenues, leading to a fall of 1 per cent in the company's gross profit margin, to 21.4 per cent.
Richard Waters, New York

AIRLINES

Continental takes Copa stake

Continental Airlines, the fifth largest airline in the US, has taken a 49 per cent stake in Copa, the Panamanian airline, and is to form an operating and marketing alliance. If approved, the alliance would allow wide code-sharing between the two airlines. It is not expected to lead to any job losses.

Copa said the remaining 51 per cent would remain in the hands of private Panamanian investors. Continental made no announcement and the consideration was not revealed. Copa has close commercial links with the Taca group of Central American airlines, with which another US carrier, American Airlines, has agreed a similar code-sharing alliance. However Continental said it was relying on a tentative decision by the US Department of Transportation to eliminate a provision in the American/Taca alliance preventing Copa establishing marketing arrangements with other carriers. Copa said it would honour its agreement with Taca and American.
James Wilson, Panama City

COMPUTERS

Olsy buy puts Wang in red

A first-quarter loss at the computer group Wang Global was triggered by restructuring charges involved in its acquisition of Italy-based Olsy. Net losses were $44.9m, or $1.22 per share, on revenues of $402.6m. Since its Chapter 11 bankruptcy in 1992, Wang has been reshaping itself as a service provider, rather than computer manufacturer, changing its name from Wang Laboratories. As it accelerated its shift toward service in the first three months of this year, service revenues rose 12 per cent, while revenues from traditional products dropped 26 per cent. Gross margins surged to 23 per cent.

In April, the company announced it would spend about $380m integrating Olsy and restructuring its old Wang operations. The company took a charge of $55.7m in the first quarter, with $13m spent on staff reductions. Another $325m is anticipated in expenses. **Victoria Griffith, Boston**

Bidders line up for Robertson Stephens

By Jane Martinson in London and William Lewis in New York

Two US commercial banks – Bank of Boston and First Union – have emerged as potential bidders for Robertson Stephens, the San Francisco-based specialist investment banking arm of BankAmerica.

The company was put up for sale a month ago after its parent announced plans to merge with NationsBank, the retail banking group which owns Montgomery Securities, a company similar to Robertson Stephens.

A takeover by First Union, the highly acquisitive North Carolina banking group, would intensify the commercial bank's state rivalry with NationsBank, also based in North Carolina. Both First Union and Bank of Boston are understood to have met Robertson Stephens' senior management.

People close to the negotiations said that the company had also attracted the interest of two investment banks: Credit Suisse First Boston and J. P. Morgan. Analysts said Robertson Stephens' west coast equities business and technology industry focus would fit well at both CSFB and J. P. Morgan.

One investment banker said that the company, which was bought by BankAmerica last October for $540m, or five times book value, could fetch an even higher price. NationsBank spent $1.2bn to acquire Montgomery Securities last July.

The management of Robertson Stephens is understood to have some say in the decision. "The real issue here is going to be: who do the managers want to join?" said one banker who was considering an offer for the company. However, BankAmerica is likely to opt for the highest price.

Mike McCaffery, president and chief executive of Robertson Stephens, has said that the company's strategy required a large parent.

ENTERTAINMENT SEAGRAM FACES CHALLENGE FROM US BUY-OUT FUNDS

Counter-bid looms for PolyGram

By Alice Rawsthorn

Seagram's efforts to acquire PolyGram, the world's largest music group, may face opposition from Thomas H. Lee and Forstmann Little, two of the largest US leveraged buy-out funds, which are planning a counter-bid.

The funds, which are believed to be formulating their offer together with Michael Ovitz, the former Hollywood talent agent and Walt Disney executive, sent formal letters on Monday to the supervisory boards of PolyGram and Philips, its Dutch parent company.

Seagram, advised by Morgan Stanley, is understood to be willing to pay as much as $10bn for PolyGram. Lee and Forstmann, represented by Allen & Company, would have to top that price to win.

Philips announced last week that it was reviewing the future of its 75 per cent holding in PolyGram, which numbers Elton John, Bryan Adams and U2 among its artists, as well as owning the film business that produced *Trainspotting*, *Four Weddings and a Funeral* and *Bean*.

By Friday, Philips, advised by Goldman Sachs, had started negotiations with Seagram, the Canadian drinks and entertainment group, which had previously been in bid talks with EMI, the troubled UK music company.

Edgar Bronfman Jr, Seagram's chief executive, is keen to clinch a deal swiftly. However, the complicated process of agreeing terms of an offer for both Philips' 75 per cent holding and the 25 per cent in public issue, means that Seagram is unlikely to be able to reach agreement until next week at the earliest.

The intervention by Lee and Forstmann could further complicate Seagram's efforts. Philips is legally obliged to give them an opportunity to table a formal offer, before accepting a bid from Seagram.

PolyGram's management might prefer to be sold to a financial consortium, rather than to Seagram, which would be likely to merge the Dutch company's businesses into its own Universal film and music subsidiary. However, it is understood that PolyGram has not had any contact with Lee and Forstmann since their letter arrived on Monday.

Mr Bronfman, who has been criticised for the disappointing performance of Universal's film interests since Seagram took control of the company three years ago, is anxious to expand the smaller, but more successful music side of the business.

If his PolyGram bid fails, he might make another approach to EMI, which ended its discussions with Seagram late last week after a disagreement over price.

Options dwindle in News Corp's satellite struggle

Rupert Murdoch may refocus on cable operations after abortive Primestar deal, writes **Christopher Parkes**

News Corporation has now made three abortive attempts at breaking into the US satellite television market and is fast running out of options.

The justice department's squelching this week of Rupert Murdoch's plan to fold his embryonic ASkyB business into Primestar, a consortium controlled by cable operators, appeared to *leave him with two possibilities.*

He could give up the chase and surrender the unused orbital slot for which News Corp and minority partner MCI, the telecoms group, paid $680m more than two years ago.

Or he might do a deal with DirecTV or EchoStar, the market leaders in the high-power multichannel market.

Neither is attractive, but *getting out to concentrate on* the Fox broadcast network and the group's existing cable connections would probably be less painful.

News Corp's switchback planning started with a project to launch an independent operation based on the last of three available orbital slots allowing complete coverage of the US with hundreds of digital channels.

The cost – estimated this week by Dan O'Brien, Primestar's chief operating officer, at up to $6bn – and the fact that four competitors (since reduced to two) had a head start, prompted the group to scrap plan A last summer.

Plan B, a merger with EchoStar, an independent with 1.2m subscribers, fell apart to be replaced by project Primestar.

Even as Mr Murdoch made his peace and struck a deal with Primestar – controlled by *Tele-Communications Inc*, Time Warner, Comcast, US West/MediaOne and Cox – a $5bn breach-of-contract suit landed on his desk from EchoStar.

Unable to contain its delight at Tuesday's anti-trust lawsuit, EchoStar contributed its own judgment. "It is not in the public interest to give the single piece of real estate in space which is most capable of fostering *effective competition to* cable to the largest cable and content cartel in the world," it said.

Joel Klein, the justice department's anti-trust chief, could not have put it better, though his "fox in the chicken coop" reference won points for colour.

US digital satellite TV companies, led by DirecTV with 3.5m subscribers – Primestar's low-power operation has 2m in mainly rural areas – are small fry compared with cable operators

Rupert Murdoch: US satellite interests undermined by cable AP

hooked up to 70m homes.

After five years' hard selling of "hundreds of channels, crystal-clear pictures, CD-quality sound", they are still striving to break even. Cable providers, meanwhile, are moving quickly to compete with *digital compression* technology to offer more channels, internet access and other interactive services.

As Mr Klein observed, cable is "one of the most durable and powerful monopolies in the country". It is eroding traditional broadcasters' market share and advertising revenues. With or without Mr Murdoch's orbital slot, it is undermining satellite's technological edge.

And it still has Primestar. Although its system's requirements for receiver dishes up to 36 inches across largely exclude it from densely populated urban areas where only high-power operators' 18-inch dishes are acceptable to planners, it is *a useful backstop.*

It also provides an additional outlet for programming such as the HBO film channel, Cable News Network and other services produced by the cable companies' owners.

Primestar's Mr O'Brien insisted this week that the government's lawsuit would be resisted. First, he wanted to negotiate, in spite of Mr Klein's assertion that the time for talking was over.

But the overwhelming impression left by the justice department, supported by the Federal Communications Commission, was that Primestar will be denied any means to help it reinforce its hold on the television distribution market.

Mr Klein even suggested that News Corp should *sell* its slot to DirecTV or EchoStar, which represent the sole challenge to cable.

But that could damage Mr Murdoch's relationships with his allies in the cable industry, which are crucial to the success of his TV programmes, *which include* 24-hour news, a sports network and entertainment from 20th Century Fox.

Returning his slot to the government could be risky if it allowed a newcomer into the industry or resulted in one or other of the existing satellite providers gaining new capacity.

On the other hand, it would test Mr O'Brien's claim that no-one other than Primestar is ready to take it on. "The justice department is trying to prove that two competitors are better than three," he said.

"If we don't, ... who is going to provide competition [for cable]? There is not a single company ready to come in and commit the $5bn-$6bn needed to go forward."

COMPANIES & FINANCE: CHRYSLER/DAIMLER-BENZ MERGER

Four months of fortune that favoured the brave

The Daimler-Benz and Chrysler deal appeared last week like a bolt from the blue, but **Haig Simonian** reports on the industry background, the secret meetings and chemistry between the two chairmen

By the time Jürgen Schrempp and Bob Eaton entered the lobby between the landmark twin towers of Deutsche Bank in Frankfurt early on May 6, they came not as supplicants to Germany's temple of high finance, but corporate leaders knowing they were about to make business history.

Where chairmen of Daimler-Benz, Germany's biggest industrial group, may once have felt uneasy on the way to the offices of Hilmar Kopper, the bank's former boss and head of Daimler's supervisory board, Mr Schrempp felt only elation.

For Mr Eaton, a stranger to Germany's financial powerhouse (in spite of nearly four years running General Motors in Europe before moving to Chrysler in March 1992 and becoming chairman the following January), the atmosphere was no less electric. They were about to reassure Mr Kopper that the world's biggest industrial merger, engineered secretly over the past four months, was oiled and ready.

In the past, visits to Daimler's supervisory board chairman – a post always held by Deutsche Bank – were not always so amicable. Although the bank's stake in Daimler had slipped from 28 per cent to 21.7 per cent in recent years, Deutsche Bank still followed its biggest single investment intently, even being instrumental in appointing – and ejecting – Daimler chairmen.

There was no such risk this time. Mr Schrempp had kept Mr Kopper informed as his secret meetings with Mr Eaton in Geneva, London and New York had unfolded since January. The previous day, the bank's board had approved the deal. Visiting Mr Kopper was a formality.

Mr Eaton had been similarly diligent with Kirk Kerkorian, Chrysler's biggest single shareholder. Although the two had clashed in 1995-96, when the Armenian had crowned his campaign for greater shareholder value at Chrysler with a takeover bid, the two were now on better terms. Mr Eaton had met the reclusive Las Vegas-based dealmaker regularly and briefed him often on the phone. "We had breakfast, lunch and dinner together," Mr Eaton said. Perhaps sensing the massive premium his shares would gain – in fact he became more than $600m richer overnight – Mr Kerkorian had been enthusiastic. The deal seemed in the bag.

Neither shareholder was going to block what seemed the ideal motor industry match. Chrysler and Daimler were a perfect fit. Geographically, their core activities were in different areas: Chrysler was dominant in the US, while Daimler's strongholds were Europe and South America.

The two were equally suited in products. Most of Chrysler's output comprised sports utilities and multipurpose "minivans". Although it was still the smallest of Detroit's "Big Three" carmakers, Chrysler's focus on such high-margin vehicles had allowed it to report profits which, at best, had been more than those of GM and Ford, its bigger rivals, combined.

Daimler, by contrast, was a byword for luxury limousines. It also made vans and trucks – which Chrysler had long dropped – and had made forays into smaller cars and other industries, notably aerospace.

With such symmetry, the two companies could avoid the management and labour pitfalls that had thwarted other big automotive mergers, such as that proposed between Volvo and Renault. In the 1980s, Chrysler itself – under its then-chairman, Lee Iacocca – saw its attempted merger with Italy's Fiat founder on management control issues.

Mr Schrempp and Mr Eaton could not afford to fail. Both knew their industry was poised for massive change and both wanted to take a lead. Capacity was rising relentlessly and Daimler realised even hugely profitable niches such as luxury cars would be squeezed as volume brands went upmarket. And Chrysler understood that not even its strength in the US – the world's biggest car market – provided the infrastructure and management depth for it to become truly global.

Mr Eaton had set a target of 20 per cent sales growth a year. With the US saturated, such ambitions could only be fulfilled abroad. He knew Chrysler could not crack it alone. "We knew we had plenty of money. But we were less confident about infrastructure and depth of management," he says.

That left three options: regional joint ventures, a merger, or an acquisition.

"All that was going through our minds in the latter part of 1997. In the lead-up to Christmas, I became convinced it should happen relatively quickly. It was time to crank it up," he says.

Mr Schrempp was thinking along similar lines. With competition in luxury cars rising, Daimler had to diversify its range to grow. The decision in the early 1990s to develop a radically designed and much cheaper small car – the A Class – was only a halfway house, limited by annual output of 270,000. If Daimler, which built 715,000 cars last year, wanted to attack the mass market in earnest, it needed a second brand.

Co-drivers: "I feared he might think me crazy," said Jürgen Schrempp (left), of his initial meeting in Detroit with Bob Eaton when the merger was first proposed. "In fact he just smiled"

Both Mr Eaton and Mr Schrempp had talked to other carmakers. Neither chairman cares to identify who they talked to, but gradually, Daimler's list was whittled down. By last winter, "it looked increasingly like Chrysler", says Mr Schrempp.

The Germans had prepared their ground. In late 1996, Mr Schrempp had streamlined Daimler's structure by eliminating Mercedes-Benz, the vehicles subsidiary, which had operated at arm's length from the parent company with its own, largely autonomous, board.

With such symmetry, the two companies could avoid the management and labour pitfalls that had thwarted other big automotive mergers, such as that proposed between Volvo and Renault

The restructuring had been bloody: both Mr Schrempp and Helmut Werner, Mercedes chairman, exchanged innuendo and insults in the media. In the end, Mr Schrempp won: Mr Werner left, and Daimler's vehicles came under the former's wing. "I had to have a single structure. It was the only way we could have done a deal."

Against this background, Mr Eaton's responsiveness to Mr Schrempp's initial visit on January 12 to Chrysler's new headquarters in Auburn Hills, a northern Detroit suburb, was not surprising.

Mr Schrempp had been in town for the Detroit motor show the previous week, staying on to speak at a conference – and to see Mr Eaton. The meeting lasted less than 20 minutes, but that was long enough for Mr Schrempp to say his piece. "I feared he might think me crazy. In fact he just smiled," Mr Schrempp says.

"I was not surprised at all," says Mr Eaton. He asked for time to think things over. A week later, he called Mr Schrempp to suggest they think further.

On February 11, the two met at the President Wilson, a hotel by the lake in Geneva. This time, each brought a close adviser. Mr Schrempp chose Eckhard Cordes, Daimler's board member for strategy; Mr Eaton opted for Gary Valade, Chrysler chief financial officer. The meeting lasted less than two hours, but the chemistry and substance convinced everyone talks should be pursued.

Some of the participants already knew each other rather well. For almost eight months in 1995-96, managers from Mercedes and Chrysler had met to consider co-operating. The talks had never had a fixed target – they had been held to examine broad areas, such as exchanging parts, pooling engines or, one day, developing joint platforms, the basic engineering structure for cars. These meetings helped to accelerate "Project Gamma" – the codename given to the new negotiations.

Mr Schrempp and Mr Eaton already had a strong rapport. "The chemistry was right from the start," says one of the investment bankers closely involved. "That made a huge difference."

The 1995-96 discussions set ground rules for the new talks. First, it was clear joint ventures were unsatisfactory: this deal had to be all or nothing. Second, the participants understood that negotiations had to be restricted to a very small group. Although the project would later include dozens of specialist advisers, the core group from the two carmakers never exceeded 25 each.

By the next Schrempp-Eaton meeting in Switzerland on March 2, just before the Geneva motor show, Project Gamma had gained momentum. Mr Valade and Mr Cordes were talking regularly by phone.

Geneva is a Mecca for the motor industry. But for Mr Eaton and Mr Schrempp to meet there and then was potential lunacy. The city would be crawling with journalists and other car companies. The Chrysler and Daimler teams chose the lakeside city of Lausanne, about 40 minutes away by car.

After the meeting, the quartet of Mr Eaton, Mr Schrempp, Mr Cordes and Mr Valade ventured down to lunch. It was a risk. Had they been recognised, the game would have been up. Fortunately, the restaurant was empty and the meal went unobserved.

At their first meeting in January, Mr Eaton and Mr Schrempp had already indicated they would not let leadership of the merged group block a deal. In Lausanne, they agreed to be joint chairmen and chief executives of the merged company. After three years, Mr Eaton, five years Mr Schrempp's elder at 58, would step down, leaving him in charge.

With the leadership settled, Project Gamma took flight. Slowly, the circle of participants widened to include lawyers, investment bankers and accountants. Cleveland, the codename for Chrysler, turned to CSFB, where Steve Koch and Dick Bott were senior advisers.

Daimler called in Goldman Sachs, which had advised Daimler on listing on the New York Stock Exchange in 1993. Mr Schrempp's contacts went right to Jon Corzine, Goldman's chairman and chief executive. Bankers say Mr Corzine's role was crucial.

Alongside the two investment banks there would eventually be a Who's Who of top legal firms: Skadden Arps and Sherman Sterling would work for Daimler; Chrysler would use Debevoise & Plimpton and Bruckhaus Westrick, a German group. Lawyers from Cleary, Gottlieb would later join for the legal side of the valuations. The accountants were equally prestigious. Daimler used KPMG and Ernst & Young, while Chrysler used Deloitte Touche.

Such names and numbers reflected the scope of the deal. Apart from its $92bn size, the merger involved complex and hitherto untested legal and accounting issues.

A key conundrum was the new group's legal structure. Daimler was a German *Aktiengesellschaft*, or joint stock company, incorporated in Stuttgart. Chrysler, meanwhile, was incorporated in Delaware and operated under US law. Which structure should Newco, as the new entity was called in legalese, assume?

The issue involved pride and substance. Chrysler, founded in 1925, remained a cornerstone of US industrial history and a pillar of Detroit.

"Incorporation was symbolic," says Mr Eaton. "The perception would be important that we were no longer an official company headquartered in the US."

However, unlike the emotional issue of Newco's eventual name – which would almost scupper the deal at the 11th hour – incorporation was treated as a technical matter. "We were going to let the facts tell us how that worked out," says Mr Eaton.

The facts pointed to a German *Aktiengesellschaft*. Daimler could not function under US law, and plans to incorporate somewhere neutral, such as the Netherlands, foundered on taxation. So an AG it was, with all its implications of a two-tier board, with a management board chaired by Mr Eaton and Mr Schrempp and a supervisory board of composition to be determined.

Harder still for Chrysler to swallow was the fact that under German law, the supervisory board would include workers' representatives.

"That was a real mindbender if you think of the history of relations between Detroit and the United Auto Workers union," says one participant.

Partly to alleviate the Americans' unease, it was agreed Newco should have a third board to represent shareholders.

With the legal foundations largely completed and the experts beavering away on technical issues, Mr Schrempp and Mr Eaton could focus elsewhere at their next meeting in London on April 9.

The crucial question was the premium in a deal under which Daimler and Chrysler would merge via a share swap. The meeting started at 4pm. By 11pm "we had an agreement", says Mr Schrempp.

Setting the premium allowed the next decisive session, held on April 16, to go remarkably smoothly. It was unusual in that Mr Schrempp and Mr Eaton were absent. "Bob and I had done the job," says the German executive.

The two had press reactions for every eventuality. A loose rumour would be met by a joint 'no comment'; something stronger would provoke a 'we are in talks with a number of potential parties' statement

The investment bankers, lawyers and accountants used the premium already established to calculate the share exchange ratio, based on the two companies' stock prices.

Daimler's shareholders would have 57 per cent of the new company; Chrysler's would take 43 per cent. Although that would confirm the deal as a takeover by the Germans, Mr Eaton would subsequently stress that, in terms of ownership, 44 per cent of the shares would be held in the US, and only 37 per cent in Germany.

With so much settled, the two moved on to other issues when they met in New York on April 21. These included how often and where the merged company's three boards should meet, and the relationships between them.

Given the brisk progress, it was agreed the merger would be announced in London on Thursday May 7. That left ample time to arrange the special board and supervisory board meetings to approve the plan formally.

On April 19, Mr Schrempp had convened a Daimler board meeting to tell colleagues what he had been doing for three months. To avoid local speculation, the meeting was held on a Sunday. Although Jürgen Hubbert and Dieter Zetsche, Daimler's key board members for cars, had already been informed, Mr Cordes was about the only other board member to know.

Mr Schrempp now had to tell the rest, as although everyone's job was secure, only a few would sit on the "chairman's integration council" central to the new group.

Gary Valade, Chrysler chief financial officer, for example, would take charge of joint purchasing. With a massive combined budget, that would be crucial considering the savings to be extracted from suppliers through economies of scale. Later, the two companies would say they expected total savings, including other synergies, of at least $1.4bn in the first year and $3bn within three to five years. Both chairmen have called these estimates "conservative".

Mr Cordes would be in charge of strategy on the integration council, while Mr Hubbert would represent the Mercedes car brand. Perhaps most significant, Tom Stallkamp, the procurement wizard who had been instrumental in making Chrysler so profitable through outsourcing and working closely with suppliers, was given the task of integrating the two companies, as well supervising Chrysler's cars and light trucks.

The focus then shifted to the next round of meetings in London over almost three days from April 27.

Mr Hubbert, Mr Zetsche and Mr Cordes for Daimler, and Mr Valade and Mr Stallkamp from Chrysler, were joined by Jim Donlan, Chrysler's controller, and Tom Gale. The latter was Chrysler's former chief designer, who was now responsible for human resources and external relations as well as design. Their task was to refine a detailed business plan and look at potential synergies. "We gave them free rein," says Mr Schrempp.

With the process nearing its conclusion, less senior joint committees sprouted up. The increased numbers heightened the risk of discovery just as the transaction looked in the bag. Mr Eaton and Mr Schrempp were aware of the dangers – a leak would almost certainly kill the deal. Once Wall Street's arbitrageurs got wind of the plans, they would yank up Chrysler's share price so high that the transaction would no longer be viable.

That led to elaborate contingency plans and inordinate secrecy. One Daimler man recalls taking Concorde to New York with Keith Hayes, Goldman's London-based car analyst. On board, they bumped into the top Mercedes engine man. None of them could disclose the reasons for their trip. Under the "cell" strategy, no one outside his immediate group knew who else was in on the deal. After some minimal pleasantries, each man hurried out of immigration, hoping not to bump into his colleague again.

The plans in case of a leak were similarly elaborate. The two companies had press reactions for every eventuality. A loose rumour would be met by a joint "no comment". In the case of something stronger, the companies would come out with "we are in talks with a number of potential parties" statement. Only in the case of a detailed leak would they admit to bilateral talks. But even then, they would provide no details.

By May 4, Mr Eaton and Mr Schrempp had virtually finished their marathon. The remaining legal niceties, and preparatory work such as dummy press interviews, took their time. But no one expected the snag that emerged at the "wrap-up meeting" at New York's Four Seasons Hotel.

"Everything was going fine, and then the name came up," says one participant. The Germans were adamant the title should reflect Daimler-Benz's history, and the fact that their company was the bigger part of the merger. They pushed for Daimler-Benz-Chrysler. Apart from being a mouthful, Mr Eaton was equally determined to have his company at the front. Chrysler-Daimler-Benz, was his suggestion.

While the latter was "unacceptable" to Daimler, recalls Mr Eaton, the former was "totally unacceptable to us. There was a stand-off. Neither side would budge".

In the end, commonsense prevailed. DaimlerChrysler was the solution. Mr Lutz and Mr Stallkamp decided the name was "really classy".

Mr Schrempp was sad to drop Benz and says "some local papers accused me of betrayal". However, the Benz name would live on, as the products would continue to be called Mercedes-Benz.

On the Tuesday, the deal was approved by Deutsche Bank's board, and on Wednesday, Mr Eaton and Mr Schrempp paid their 8.30am call on Mr Kopper. Mr Hubbert and Mr Zetsche were already present. "They had smiles a mile wide. They were really, really happy," recalls Mr Eaton.

After Frankfurt, the show got on the road. The chairmen flew to the Dorchester Hotel in London, where the deal was tied up and signed that night. The following day at 1pm came a press conference in the London Arena, followed by meetings with investors in Frankfurt and in New York on Friday night.

While Mr Schrempp returned to Germany, a tired Mr Eaton talked for the first time to the Detroit press at Chrysler's headquarters. The deal was done. All everyone really wanted to know now was: Who's next?

Additional reporting by Graham Bowley and Andrew Fisher in Frankfurt and Virginia Marsh in London.

SWITZERLAND GOVERNMENT GIVES FINAL GO-AHEAD FOR TELECOMS IPO

Swisscom sale may net more than SFr5bn

By William Hall in Zurich

The Swiss government is expected to raise more than SFr5bn ($3.4bn) from the sale of up to 49 per cent of Swisscom, the state-owned telecommunications company, whose shares will be sold in an initial public offering later this year.

The government yesterday gave the final go-ahead for the offering, which is expected in the final quarter.

Switzerland has few state-owned industries and the sale of Swisscom, which has 20,000 employees and revenues of about SFr10bn a year, will easily be the country's biggest privatisation.

If successful, the issue could prompt the sale of other assets, such as Zurich airport and regional electricity companies.

Switzerland is the seventh biggest market in terms of international telecoms traffic and Swisscom is one of the world's most efficient operators in terms of lines per employee. It also has one of the world's most modern digitalised networks and is a leader in mobile technology.

The Swiss telecoms market has been growing at about 3 per cent a year and analysts expect its long-term growth rate to more than double.

Although Switzerland is not a member of the European Union, it has been shadowing the EU's timetable for telecoms deregulation.

Two Swiss consortia, backed by international carriers such as British Telecommunications and SBC, the US operator, are building their own fixed-line Swiss networks to challenge Swisscom's monopoly, and the Swiss government has recently issued two new mobile licences.

The increased competition means Swisscom's prices are likely to fall and it is expected to lose more than 15 per cent of its market share over the next five years.

To offset this, Swisscom has been expanding into the neighbouring countries of Germany, France and Austria. Next week it is expected to take a substantial stake in a new Austrian telecoms company and is poised to move into northern Italy.

Swisscom will be one of the most important telecoms issues this year. SBC Warburg Dillon Read and J.P. Morgan have been hired as joint global co-ordinators, while Goldman Sachs is advising the government and ABN Amro Rothschild is advising the company.

The Swiss government's decision to press ahead with the sale means Swisscom can start marketing itself to the international investment community.

Next month it will publish its 1997 results and analysts will be given the first chance to judge the performance of Swisscom's new management team headed by Tony Reis, a former senior executive at International Business Machines.

Nedcor in talks over alliance

By Victor Mallet

Nedcor, the South African banking group, is negotiating a possible alliance between its investment bank and a foreign investment bank to raise its profile in world markets.

Richard Laubscher, chief executive, said yesterday: "We are having a trial honeymoon with an international partner. We're courting."

He said Nedcor Investment Bank was doing well – its profits rose 81 per cent to R188m ($37m) in the six months to March – but would benefit from the distribution and research capabilities of an international partner in a marketplace where big merged banks held sway.

"This is a global business now. If you saw those giants, you've really got to question our ability to hit against them internationally," he said.

About 70 foreign banks have opened offices in South Africa in recent years and have taken corporate and cross-border business from their South African rivals.

Mr Laubscher said Nedcor was negotiating a separate alliance with a US non-bank financial service provider in the retail sector, with a view to launching a high-technology consumer finance and direct banking business.

Nedcor's first-half results reflected the buoyancy of South Africa's financial services sector. Net profit rose 28 per cent to R736m, in spite of a 42 per cent rise in provisions to R266m from R187m.

The shares closed up R2.50 at R141.

Barrick Gold agrees African joint ventures

By Victor Mallet in Johannesburg

Anglo American of South Africa and its subsidiary Anglogold will take a 50 per cent stake in the African exploration interests of Canada's Barrick Gold and manage them in a series of joint ventures.

Although the deal is relatively small in financial terms – the Anglo companies will buy their stakes by spending up to $15.6m on exploration in Mali, Senegal, the Democratic Republic of Congo and Niger – it brings together two of the largest gold mining companies in the world in a formal alliance.

Anglogold executives said they would contemplate further such deals as their company expanded outside South Africa.

Commenting on the Barrick alliance, Ian Cockerill, Anglogold executive officer in charge of business development, said: "If there were ways of doing business in the future between the two companies, we wouldn't be frightened of exploring that."

Both sides have been put under pressure by the low gold price. Barrick is anxious to focus on its existing US operations, while Anglo believes it can help the joint ventures with its African expertise from its base in Johannesburg.

"It's terribly time-consuming dealing in these different countries," said the chief executive of a rival South African gold mining company. "I would think that Barrick was quite keen to pull back its horns."

Anglogold will manage the six properties in Congo, Mali and Senegal, while Anglo American will manage the Niger property because it is a more marginal prospect that does not fit in with Anglogold's ambitions as a holding company for high-quality mines.

"With Barrick as a partner, we are convinced that we can turn to account the mineral wealth of Africa," said Bobby Godsell, Anglogold chief executive. "We are an African company with 80 years of experience on this continent and intend playing a role in its renaissance."

The Anglo companies and Barrick will hold equal shares of 40, 42.5 or 45 per cent in each of the exploration properties, with the respective governments owning the remainder. In the case of the operations in west Mali and in Senegal, the stakes will be reduced to 28.33 per cent if Iamgold of Canada exercises its participation rights.

Bobby Godsell: intends playing role in Africa's renaissance

Coopers-PW merger hits snag

By Jim Kelly, Accountancy Correspondent

Senior executives at Coopers & Lybrand International have flown to Spain to try to patch up a dispute between their partners and those at Price Waterhouse ahead of their planned global merger on July 1.

Both firms insisted yesterday the situation in Spain was caused by "local difficulties" and their worldwide merger was on schedule, with final regulatory approval expected from the European Commission within two weeks.

Competitors among the "Big Six" firms are, however, understood to be talking to Coopers in Spain, and in other European countries, in the hope of persuading the firm to ditch the merger and find a new global network.

The merger is also unlikely to go ahead as planned in Sweden, where Coopers is again being courted by other members of the Big Six – including Arthur Andersen – although both firms are still trying to conclude a local merger.

Neither Spain nor Sweden are crucial to the success of the global merger, and in both cases one of the firms could simply act as the local representative of what will be the world's biggest professional services organisation.

In Spain, PW has 988 staff and 52 partners and Coopers, 911 staff and 46 partners. In Sweden, Coopers has 1,600 staff in 90 offices while PW has 254 staff in six offices.

Reports that the merger is in trouble in Italy, the Netherlands, Germany and Latin America were dismissed by both firms. The Chilean practice of Coopers has already decided to defect to Arthur Andersen.

"Both firms in Spain are in favour of the merger, having voted in favour of the local and global mergers in November 1997. But at the moment there are some differences over the management structure and governance of the new firm," Coopers said.

It is understood the dispute in Spain has resulted in the negotiating board of four partners holding only four meetings since the merger was announced eight months ago.

Partners have been unable to agree plans for allocation of senior jobs and the service lines they should control.

Coopers' partners have complained that PW wants to control up to 80 per cent of the business – largely audit and consulting services.

There is also disagreement about the composition of the board and the number of votes needed to secure a *strategic decision.*

People close to PW, however, suggested Coopers' problems stemmed from the amount of income they would receive under plans devised to give all partners a "shared economic interest" in the new organisation. They suggest the Spanish arm has performed badly, compared with others in Coopers' European network.

Deutsche Bank up to second in forex rankings

By Simon Kuper

Deutsche Bank saw its heavy investment in foreign exchange pay off as it rose to second place in the annual Euromoney survey of foreign exchange banks, published yesterday.

Citibank topped the closely watched survey for the 20th time in a row, with an estimated 8.54 per cent share of the foreign exchange market. But the rankings will bring more joy at Deutsche, which has risen from ninth in 1996 and fourth last year. The bank now has an estimated 5.57 per cent market share.

Deutsche has opened foreign exchange branches around the world and lured staff from other banks in the past three years.

Its currency operations, *never prominent previously,* have gained status within the bank as its drive into investment banking has faltered in other spheres. This year, Deutsche began a global restructuring involving 9,000 job cuts and plans to focus more on Europe.

Hal Herron, the bank's global head of foreign exchange, said currencies now provided a larger share *of Deutsche's revenues than* it had in the past. However, he added that the bank's expansion in foreign exchange was largely completed.

Chase Manhattan came third in the poll, up from fifth, while Goldman Sachs rose from eighth to fourth place and HSBC from ninth to fifth.

Among the biggest fallers were two UK banks – Nat-West, down from second to ninth, and Barclays Capital, down 10 places to 20th. Merrill Lynch, last year's surprise with a jump of 21 places to third, slipped back to eighth place.

The table suggests that the largest banks in foreign exchange are pulling away from the others. Although the rankings have been volatile in previous years, the top nine banks in 1997 were all in the top nine this year.

Mr Herron said middle-tier European banks would continue to suffer in foreign exchange as the advent of the euro wiped out their domestic currencies.

This year Euromoney also ranked banks by quality of service, as perceived by clients. Here, too, Citibank, Deutsche and Chase finished first, second and third respectively, but ABN Amro and Royal Bank of Canada did better than they did for market share, coming fifth and sixth respectively.

NEWS DIGEST

TRANSPORT

Nedlloyd reduces losses despite turmoil in Asia

Nedlloyd, the Dutch transport group, reduced its first-quarter loss to Fl 30m ($15m) from Fl 45m, in spite of what it said was a Fl 10m negative impact from the economic turmoil in Asia. In a seasonally weak period for the shipping industry, its P&O Nedlloyd container joint venture with Peninsular and Oriental Steam Navigation, of the UK, showed pre-tax losses of $39m, from $58m in the same period last year, when the two companies merged that operation.

The latest quarter was affected by an imbalance in Asian markets, with weak shipments and rate cuts in cargo destined for region, while volumes in the other direction were strong. P&O Nedlloyd is increasing rates from Asia in the current quarter. "Further significant cost savings are being made," it added. Revenues at Nedlloyd itself were 4 per cent higher at Fl 885m. Its European road transport business showed higher volumes. Together with Dan Transport of Denmark and Italy's Salma Avandero, it is to take a 41 per cent stake in Edouard Dubois & Fils, a French freight forwarder. Leo Berndsen, chairman, told the annual meeting yesterday that Nedlloyd was looking for acquisitions in Germany.
Gordon Cramb, Amsterdam

INVESTMENT BANKING

UBS executive joins CSFB

Union Bank of Switzerland's most senior executive in Germany has defected to its Swiss-owned investment banking rival, Credit Suisse First Boston. Gerhard Heinrich, 46, will be chairman of CSFB's German operations with additional responsibility for Austria.

The most senior executive to leave UBS in continental Europe since it agreed to merge with Swiss Bank Corporation in December, Mr Heinrich will be a deputy chairman of CSFB Europe and a member of the bank's European executive board.

At UBS, which he joined in 1993 from BHF-Bank, he had headed German operations in investment banking, structured finance, private equity and sales and trading. He helped to handle the initial public offerings for Merck and Adidas, and the employee stock ownership plan for Deutsche Telekom.
Clay Harris, Banking Correspondent

HEALTHCARE

Novo Nordisk rises 55%

First-quarter pre-tax profits at Novo Nordisk, the Danish healthcare and industrial enzymes group, rose 55 per cent to DKr882m ($130m). This year's figure included net non-recurring income of DKr200m. Excluding this, profits advanced 19 per cent. Turnover rose 15 per cent to DKr4.19bn.

Net profits surged 59 per cent to DKr582m, taking earnings per share to DKr7.82 from DKr4.90 last year. The group maintained an earlier forecast that full-year operating profits would increase by at least 15 per cent, excluding one-off items. Sales by the healthcare division, which includes insulin and other diabetes care products, rose 14 per cent to DKr3.05bn. Sales of industrial enzymes increased 16 per cent to DKr1.12bn. Income from licence fees rose about 27 per cent to DKr150m. **Hilary Barnes, Copenhagen**

RETAILING

Super-Sol advances 49%

Super-Sol, Israel's leading supermarket chain, yesterday reported a 49 per cent rise in net income on an 8 per cent increase in sales for the first quarter, in spite of a sharp slowdown in economic growth. Net profit rose from Shk20m in the first quarter of last year to Shk31m ($8.4m), excluding one-off items. These included a net capital gain of Shk24.1m on the sale of Super-Sol's shares in Super Kozert, a Hungarian retail chain, earlier this year. It also took a one-time charge of Shk16m against goodwill related to the acquisition of Shekem, the Israeli retailer.

Sales rose from Shk1.04bn to Shk1.13bn over the period, even though the Israeli economy grew only 1.9 per cent last year compared with 4.5 per cent in 1996. Private consumption grew 3.3 per cent compared with 5.2 per cent over the same period. In its latest economic report, Bank Hapoalim, the largest bank, said revenues at retail chain stores rose 6.7 per cent in the latest quarter as consumers switched from smaller retailers to the large stores.
Judy Dempsey, Jerusalem

SPORTSWEAR

Puma hit by falling demand

Puma, the German sportswear and equipment group, yesterday blamed falling demand from Asia, currency factors and higher costs for a 60 per cent decline in pre-tax profits, to DM12.5m ($7m) for the first quarter.

Net profits were DM9.9m, or 84 pfennigs a share, compared with DM28.4m, or DM1.84. Sales, however, were ahead at DM173.7m from DM153.6m last time. Pumas said costs, which soared from DM38.1m to DM63.4m, were explained by *higher media advertising costs and heavier expenses for the* extension of its international promotion contracts.

Although it expects full-year sales to increase on 1997, further investment in product development and marketing, and the effect of the Asian financial crisis, would dampen profits. The licensing business would slow because of the Asian crisis, the company warned. **AFX News, Herzogenaurach**

CONSTRUCTION

Hochtief rises to DM158m

Hochtief, the German construction group, said yesterday net profit rose 8 per cent to DM157.8m ($89m) last year from DM146.1m in 1996. Earnings per share rose to DM3.30 from DM3.20. Construction output climbed 7.2 per cent to DM13.06bn in 1997 from DM12.18bn last time, it said. However, new orders fell 11.5 per cent to DM12.67bn.

Hans-Peter Keitel, chief executive, said the company had improved its performance in spite of the continuing recession in the industry. He attributed this to the "restructuring of our company into a leader for complex construction projects". Hochtief was serving more as a chief contractor and doing less building for such contracts.

The company was also "fulfilling its vision" to operate international airports, which should have a positive effect on future business, he said. Hochtief, together with Irish airport operator Aer Rianta, bought 50 per cent of Düsseldorf airport last year. **AFX News, Düsseldorf**

RETAILING

Continente fails to hit forecasts

Continente, the Spanish operations of French retailer Promodès, yesterday surprised the market with lower than expected profits for the first quarter, at Pta1.66bn ($11m) compared with Pta1.84bn last time. "We were looking for net profit of Pta1.9bn," an analyst at a leading European bank said. Continente said group earnings suffered from the "negative impact" of the consolidation of its acquisition of the Simago supermarket chain. **AFX News, Madrid**

هكذا أمن الاصل

APRIL 1998

Punch TAVERNS

£563,700,000

PUNCH TAVERNS GROUP LIMITED

ACQUISITION OF AN ESTATE OF 1,428 PUBLIC HOUSES FROM BASS PLC

BT Capital Partners Europe

DECEMBER 1997

Punch TAVERNS

£455,000,000

SENIOR BRIDGING FACILITIES

£190,000,000
SENIOR TERM 'A' LOAN

£80,000,000
SENIOR TERM 'B' LOAN

£50,000,000
SENIOR TERM 'C' LOAN

£25,000,000
REVOLVING CREDIT FACILITY

£110,000,000
HIGH YIELD BOND BRIDGE FACILITY

BT Alex. Brown International

APRIL 1998

Punch TAVERNS

£535,000,000

CORPORATE NOTES/SECURITISATION

£120,000,000
CLASS A1 SECURED FLOATING RATE NOTES DUE 2008

£60,000,000
CLASS A2 SECURED FLOATING RATE NOTES DUE 2011

£80,000,000
CLASS A3 SECURED FLOATING RATE NOTES DUE 2015

£175,000,000
7.274% CLASS A4 SECURED NOTES DUE 2022

£100,000,000
7.567% CLASS B SECURED NOTES DUE 2026

BT Alex. Brown International

FOR ANY ENQUIRIES PLEASE CONTACT:

RANDL SHURE / MANJIT DALE
(0171) 982 5758

DOUG EVANS
(0171) 982 2024

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Bankers Trust
Architects of Value

INDIA FINANCE SCHEME AND NEW LAUNCHES HELP MODEST SECOND-HALF RECOVERY AT VEHICLES GROUP

Bajaj rises despite falling market share

By Krishna Guha in Bombay

Bajaj Auto, the troubled Indian manufacturer of scooters, motorcycles and three-wheeled vehicles, yesterday surprised the market with a small increase in annual profits, in spite of a sharp loss of market share to Japanese and Italian competitors.

Pre-tax profits were up 2 per cent at Rs6.9bn ($174m) for the year to March 31 on sales of Rs32.8bn, up 1 per cent.

"My competitors are doing well," said Rahul Bajaj, chairman. "But my net profit is still more than the next four biggest companies combined."

Bajaj benefited from a buoyant market, which increased 3 per cent in volume terms and more in value, as Indian consumer spending revived in the second half.

Sangiv Bajaj, Mr Bajaj's son and general manager of corporate finance, said the company's low-cost finance scheme supported sales.

"It enables us to use strong corporate cash flow as a competitive weapon," he said.

Customers bought 110,000 scooters and motorcycles through the scheme, which ended on March 31.

The modest second-half recovery was aided by the launch of two new models – the Bajaj Classic SL scooter and the Boxer motorcycle.

However, Bajaj's share of the overall market for two- and three-wheeled vehicles fell from 44.5 per cent to 40.5 per cent.

The company was hit by a shift in consumer demand from scooters to high-powered motorcycles, where Bajaj is much weaker than Hero Honda, its main competitor.

It also lost market share in its core scooters business to TVS Suzuki and LML Piaggio, a joint venture by the Italian group.

Only Bajaj's three-wheeled business remains secure.

There is concern that Bajaj does not have the research and development capability to match its rivals' new product lines and that it may lose out when India adopts strict new emissions controls in 2000.

But Mr Bajaj said yesterday that the company was "fully prepared" for emissions controls, and pledged to unveil "17 new models in a period of 21 months" in order to win back market share.

He said the company would regain 45 per cent of the two- and three-wheeled market within three years.

Analysts said Bajaj's prospects depended on the success of the new models, which are part of a broader strategy that includes cost-cutting and more aggressive marketing.

Overseas sales buoy Fuji Photo

By Bethan Hutton in Tokyo

Strong overseas sales helped Fuji Photo Film to higher sales and profits last year despite a sluggish domestic market and stiff competition elsewhere.

Japan's largest photographic materials maker reported a 1.3 per cent increase in consolidated pre-tax profit, to Y162.5bn ($1.2bn), and 4.1 per cent growth in net profits, to Y88.8bn, for the year ending March 31.

Overseas sales grew 23.2 per cent to Y708bn, while domestic revenues slipped 1.1 per cent to Y670bn, resulting in a 10.1 overall increase in consolidated sales.

The company said yesterday that operating conditions in international markets had become increasingly difficult because of intensified competition from other global manufacturers, escalating price wars and sagging demand in Japan and other parts of Asia.

However, Fuji forecast further growth for the current year, seeing consolidated sales up 6.5 per cent and net profits up 9.2 per cent.

At parent level, the forecast was flat, with results for last year showing growth of 2.2 per cent in sales and 2.4 per cent in net profit. The full-year dividend was up Y0.5 at Y22.5.

Fuji's position in the US market was helped last year by a World Trade Organisation ruling in a long-running dispute with Kodak, the US photo-film maker, over access to the Japanese market. The ruling averted possible action against Fuji by the US.

Fuji has been gaining market share from Kodak in the US, owing to aggressive pricing, but Kodak has recently threatened to match Fuji's price cuts more closely, particularly in the summer season. Expansion of Fuji's production facilities in the US last year will increase pressure on it to keep sales high.

In Japan, Fuji saw strong sales of products based on the Advanced Photo System, a new 24mm film format introduced in 1996. However, the products have been slower to catch on elsewhere.

Alliance gives Tokyo a rare moment of cheer

Japan's markets welcome the implications of Nomura-IBJ deal, reports **Gillian Tett**

In recent months, good news has been a rare commodity in Japan's financial world. Yesterday, though, a hint of cheer emerged.

News about the alliance between Nomura Securities and Industrial Bank of Japan reached the stock markets as trading closed in Tokyo and the verdict quickly became clear: both Nomura's and IBJ's share price rallied briskly, by Y26 and Y65 respectively.

The reason for the enthusiasm was obvious. Though details of the alliance remained murky, the deal could have two potentially important implications for Japan's financial world.

The first is that the Big Bang deregulation may finally be ushering in a long-awaited realignment of the industry.

During the past five decades, the country's financial sector has been segregated through heavy government regulation. Companies such as IBJ have been barred from conducting securities business, while Nomura was not allowed to enter banking.

Big Bang promises to tear down many industry barriers. This has fuelled speculation that the country's specialised financial companies could become universal banking giants, along the lines of those seen in countries such as Germany.

So far, at least, neither Nomura nor IBJ seems ready to create a universal bank. No cross-shareholding nor merger has been announced. Indeed, the deal revealed yesterday remains very limited in scope.

IBJ and Nomura have pledged to co-operate in three separate joint ventures on a 50-50 basis. One will focus on providing advanced financial services, such as trading in derivatives and the restructuring of balance sheets. This unit will try to compete with groups such as Goldman Sachs, Merrill Lynch and Morgan Stanley, which are rapidly expanding in Japan.

The second venture will seek to provide so-called "administrative services" for investment products. This reflects the hope that Japan will soon introduce the type of pension plans already popular in the US.

The third unit will emerge from a US-based asset management business, currently 100 per cent owned by Nomura. IBJ plans to take a 50 per cent stake and the two will jointly bring mutual fund-style products to Japan.

The units are unlikely to be big initially and both companies stress that they will not replace existing subsidiaries, rather operate in addition to them.

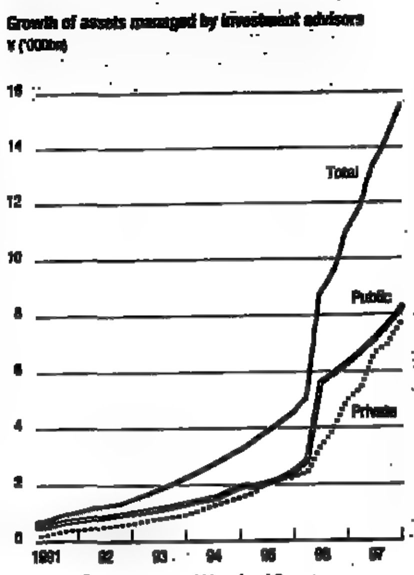
But the hope is that modest beginnings could lead to a broader alliance; both companies say they are exploring other forms of "business co-operation".

The deal may also mark a new realism among Japan's financial companies – and, above all, their ability to compete on the global stage as independent entities.

Japan pension assets

Growth of assets managed by investment advisors

¥ ('000bn)



Source: Japan Securities Investment Advisers Association

Top 20 investment advisers managing pension assets

Value of assets (Ybn)

Investment Advisor	Dec 97	Dec 96	% chg. since Dec 96
IBJ	1,557.5	1,336.9	16.5
Nomura	1,404.2	1,022.4	45.2
Nikko Kokusai	975.3	791.9	23.3
LTCB	948.2	756.9	25.3
Daiwa	781.4	550.9	41.3
SZW Nikko	747.9	630.5	18.6
Yamaichi	668.2	513.6	30.1
Schroder	599.4	294.9	103.3
DKB Asahi Toshin*	592.8	438.3	35.1
Nissay (Nihon Seimei)	545.4	393.8	38.1
Sanwa	513.8	341.4	50.5
Mercury	481.5	272.3	76.8
Deutsche Bank	466.9	298.5	56.2
Fuji (Fuji BK)	435.9	332.3	31.1
Goldman Sachs	388.9	[illegible]	[illegible]
Dai-Ichi Life	355.2	200.1	77.5
Tokio Marine M.C.	352.7	226.1	55.9
Jardine Fleming	336.7	240.3	38.9
Tokyo Mitsubishi	321.5	264.9	38.4
Yasuda MSF Brinson	328.6	220.9	48.8

Note: Value figures represent contract amounts

* DKB, Yamaichi and Asahi Investment Trust have been merged

The recent consolidation in the US financial industry has shown that being a medium-sized player may no longer be enough to compete globally.

Meanwhile, Big Bang is attracting a wave of foreign companies into Japan – and leaving them winning a growing share of business in the Japanese groups' own markets.

Such trends have already forced some of IBJ's and Nomura's competitors, such as the Long-Term Credit Bank of Japan, to seek foreign partners. Others, such as Nippon Credit Bank, have been forced to withdraw from overseas markets.

Though IBJ and Nomura are considerably stronger than their domestic rivals, both now *increasingly recognise that competing globally as independent groups may no longer be a viable option.*

As a senior executive at one of the companies yesterday said: "You won't see US-style mergers in Japan. But this is our response to globalisation, in a sense, but carried out in Japanese style."

If the two groups did combine overall, there might be some powerful synergies. Nomura has strong domestic distribution capabilities, and pockets of excellence overseas, such as its European securitisation business. IBJ has a strong corporate client base.

But aside from the uncertainties of whether the alliance will deepen, the *problem is that neither company* is talking about job cuts, closures or serious cost savings. Indeed, evolution, rather than revolution, remains the theme.

"We are going to move slowly," one executive admitted yesterday.

Though such sentiments sound discouraging to some analysts, the potential for striking change remains.

"Maybe this will turn into another disappointment," commented one US banker yesterday. "But it could mark the start of the reshaping of Japan's financial system. If so, that is something that the rest of us should certainly be watching carefully."

Reports of arrest hit Onfem shares

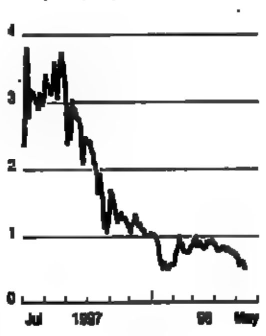
By John Ridding in Hong Kong and James Kynge in Beijing

Shares in the Hong Kong arm of one of China's largest industrial groups fell sharply yesterday after reports that a senior executive had been arrested in Beijing.

Onfem Holdings, the Hong Kong-listed division of the recently disbanded China National Nonferrous Metals Corp, said yesterday it had not received official confirmation of the arrest of Fang Dacheng, an executive director, on allegations of corruption. However, shares in the company fell 5.5 per cent to 51 HK cents, having already lost 10 per cent of their value on Tuesday.

Onfem

Share price (HK$)



Source: Datastream/ICV

The State Nonferrous Metals Industry Administration, the body that has assumed many of CNNC's duties, said it was not sure if Mr Fang had been arrested but confirmed that he was no longer performing his duties.

Industry analysts in Hong Kong said the reported arrest signalled a crackdown at CNNC, which was disbanded in April following a series of business setbacks.

The group suffered losses of more than US$200m last year, due in part to unauthorised zinc trades by a subsidiary.

Policy-making and regulatory functions of the metals industry are now controlled by the State Nonferrous Metals Industry Administration.

A CNNC subsidiary was also involved in a recent share trading scandal on the Shenzhen stock exchange in southern China. Senior CNNC officials, including Wu Jiancheng, a son-in-law of the late Deng Xiaoping, the former Chinese leader, were involved in the investigation.

The reports of Mr Fang's detention come amid a broader crackdown on corruption at mainland-controlled business groups.

Mainland officials have also signalled a desire to tighten their grip on Hong Kong subsidiaries of Chinese business groups, many of which have grown rapidly through acquisitions and share sales.

Mr Fang stepped down last year as managing director of Onfem Holdings, but remained executive director.

Onfem said yesterday that Mr Fang had not participated in the day-to-day management of the company since June 1997 and that his detention would not have any impact on its operations.

Mr Fang was a director of other companies within the former CNNC group, including Jiangxi Copper and Silver Grant International.

Shares in Jiangxi Copper fell almost 5 per cent yesterday, but Silver Grant shares climbed 4 per cent.

Oriental Metals, which was also part of the former CNNC empire, lost almost 10 per cent.

NEWS DIGEST

BANKING

Hongkong and Shanghai lifts Indonesia provisions

The Hongkong and Shanghai Banking Corp, part of HSBC Holdings, the global banking group, said yesterday it would increase its provisions for bad and doubtful debts in Indonesia. The group is also stepping up efforts to recover loans made to businesses in the financially troubled country. In total, the HSBC group has an exposure of about US$2.5bn to Indonesian businesses.

John Strickland, Hongkong Bank Group chairman, said the group's exposure was among the highest of the banks operating in Hong Kong, with the exception of certain US and German banks. According to Morgan Stanley Dean Witter, the US investment bank, other banks with heavy exposure include Chase Manhattan, also with US$2.5bn, and Japan's Bank of Tokyo-Mitsubishi, with US$3.7bn.

Morgan Stanley Dean Witter calculates that between 10.5 per cent and 14 per cent of loans will ultimately be lost in Thailand – the figure being arrived at from information supplied in the recapitalisation prospectus issued by Thai Farmers Bank – but says lending to Indonesia is likely to experience larger losses.

HSBC is adding resources to help mitigate its losses. Mr Strickland said: "We have drafted in additional resources and we are being very careful to put in place sound procedures to make sure we get repaid." **Louise Lucas, Hong Kong**

CONSUMER FINANCE

Takefuji climbs 19%

Net profits at Takefuji, Japan's largest consumer finance group, rose 19 per cent to Y66.86bn ($500m) in 1997, the group said yesterday. The increase is the third consecutive year of strong results, with net profits climbing 63 per cent since 1995.

The results highlight the relative buoyancy of the consumer finance sector, despite the overall weakness of the Japanese economy. They contrast sharply with the problems dogging the country's more traditional banking and securities businesses, which are expected to post weak results next week.

Takefuji said yesterday it expected its expansion to continue. The company expects parent net profits of Y73.7bn in 1998.

Last year the group's revenues rose from Y277.42bn to Y308.36bn. The strong increase, reflected by other consumer finance companies, has been largely triggered by a steady rise in demand for consumer loans. Although the traditional banks offer some forms of loan, the new consumer finance companies have expanded rapidly by providing a more flexible service.

However, many Japanese institutional investors remain reluctant to purchase shares in companies such as Takefuji because of long-standing cultural unease about consumer finance groups. **Gillian Tett, Tokyo**

ENGINEERING

Korean group defaults

Dong Ah Engineering, the unlisted Korean company, failed to pay back Won6bn ($4.3m) in commercial paper returned to Korea First Bank last Friday, and finally defaulted on Tuesday, the group said.

Dong Ah Engineering is a subsidiary of Dong Ah Construction Industrial.

The company said an important reason for its default was "excessive" demand by creditors for more collateral in return for extending maturities on Won6bn in commercial paper.

If Dong Ah Construction succeeds in raising a $500m commercial loan through Credit Suisse First Boston by Saturday, Dong Ah Engineering would be merged with its parent company, the group said. Otherwise, it would apply for court protection or receivership. **Reuters, Seoul**

FOREIGN SHAREHOLDINGS

Seoul to abolish limit

South Korea yesterday said it would abolish a foreign shareholding limit of 55 per cent in listed companies on June 1 in order to attract overseas investment, as the Seoul bourse briefly hit a 11-year low in morning trading.

Reports that the government would take the action, which was announced after the market closed, caused the Seoul composite index to rise 1.34 per cent, to 356.58, in afternoon trading.

The government also raised the foreign shareholding ceiling in two state companies, Pohang Iron & Steel and Korea Electric Power, by 5 percentage points to 30 per cent.

Korea promised to abolish the foreign shareholding limit by the end of 1998 under the International Monetary Fund's $58.5bn rescue programme. The limit was increased from 26 per cent to 50 per cent last December and 55 per cent earlier this year.

The financial supervisory commission indicated that it might advance the deadline by a week to May 25 if the stock market continued to perform poorly. **John Burton, Seoul**

COMPANIES & FINANCE

TELECOMS SPANISH OPERATOR LIFTED BY LATIN AMERICAN AND MOBILE BUSINESSES

Telefónica advances 18%

By Tom Burns in Madrid

Growth in its mobile and Latin American businesses helped Telefónica offset the impact of telecommunications deregulation in Spain and post a 17.8 per cent increase in first-quarter net profit, to Pta32.8bn ($218m).

Earnings from the core fixed telephony business in Spain grew by a modest 5.7 per cent, reflecting lower tariff charges amid intensifying competition.

Telefónica said the combined earnings of its mobile and international units represented 39 per cent of consolidated sales in the first three months, and 50.1 per cent of net profit.

Retevisión, the carrier managed by Telecom Italia that launched a second fixed-line service this year, claimed yesterday it was well ahead of its business targets and had captured more than 350,000 corporate and residential clients in its first 100 days of operation.

The government is scheduled to complete the deregulation of the fixed-line sector next week, by awarding a third licence to a consortium led by France Telecom, which entered the only bid.

Ana Birulés, Retevisión chief executive, claimed the carrier had achieved "the fastest fixed-line market penetration in Europe".

Retevisión, in a consortium that includes Telecom Italia's cellphone unit, is now competing with France Telecom for a mobile licence that will be awarded by the government next month.

Telefónica controls 72 per cent of the domestic cellphone market, where it competes with Airtel, a carrier backed by British Telecommunications and AirTouch of the US that began operating in 1995, in the initial phase of liberalisation.

Telefónica's mobile division had 3.4m clients at the end of the first quarter, a 35 per cent year-on-year increase, and earned Pta12.1m.

BT last month masterminded an agreement with minority Airtel shareholders that fended off a takeover attempt by Retevisión. Endesa, the Spanish power group and Telecom Italia's partner in Retevisión, now says it will sell its 8.14 per cent stake in Airtel, allowing BT and AirTouch to take control.

The competing Telecom Italia and France Telecom bids for the third mobile licence have caused concern in government circles, as it is anxious to have both operators providing a global service in the domestic market.

Officials said yesterday that a fourth mobile licence could be awarded at the end of the year.

HK retailer fails in bid to buy Barney's

By Louise Lucas in Hong Kong

Dickson Concepts, the Hong Kong luxury retail group, has failed in its attempt to take control of Barney's, the US department store, which has been in its sights for more than a year.

The group said yesterday that its "definitive agreement" to take control, signed last September, had been terminated. However, Dickson Concepts may be entitled to bid again under a new reorganisation proposal that will shortly be put forward by the US retailer's creditors.

Barney's filed for bankruptcy in 1996. Dickson Concepts, which has a history of turning around troubled retailers, such as Harvey Nichols of the UK, revealed its plans to acquire Barney's in March last year.

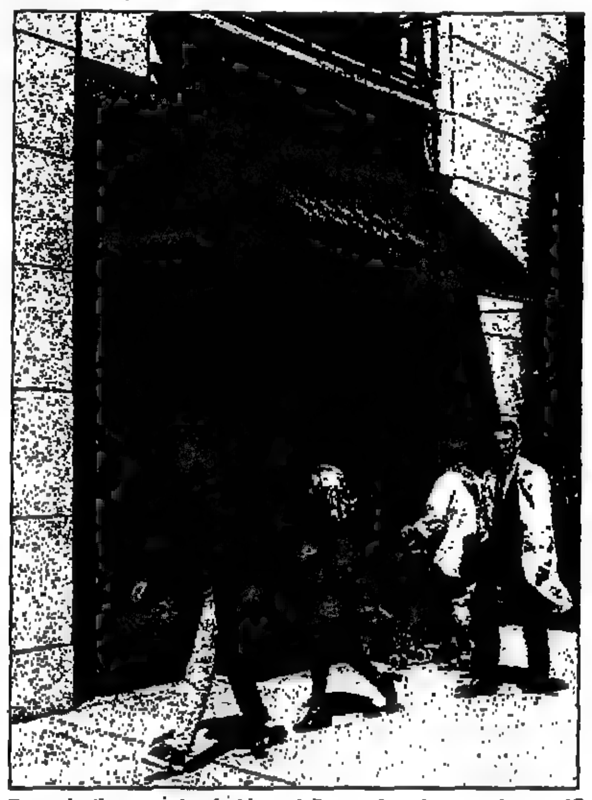
Several other retailing groups expressed interest at that time, including Saks Holdings. Dickson Concepts proposed paying US$205m in cash for control of Barney's, and also issuing a US$42m bond to be funded by royalty payments.

The offer was ultimately rejected by the official committee of unsecured creditors, Dickson Concepts said yesterday. As a result, the company yesterday was returned a US$1.5m commitment fee and stands to receive a further termination payment if it does not pursue its bid under the reorganisation proposal.

The rejection is a blow to Dickson Concepts' global ambitions, but the group is continuing its expansion in the domestic Hong Kong market and Asia.

The group plans to open 80 outlets in Hong Kong and the region over the coming year, despite the Asian financial crisis, which has prompted other upmarket retailers – including Joyce Boutique Holdings and Duty Free Shoppers, part of LVMH, the French luxury goods group – to close down stores.

In Hong Kong, stores have been scaled back – by moves to cheaper premises, staff cuts or closures – as consumer spending has plunged. Retail sales volume fell 15 per cent in January and February, compared with the same two months last year.



Barney's: the upmarket fashion retailer awaits a turnround AP

Anheuser eyes San Miguel stake

By Justin Marozzi in Manila and Nikki Tait in Chicago

Anheuser-Busch, the US brewer, is among several foreign groups eyeing a 27 per cent stake in San Miguel, the Philippine food and beverage group, according to the body set up by President Fidel Ramos to sell the shares.

The Philippine government hopes to raise between 30bn pesos and 40bn pesos ($3.5bn-$4.7bn) from the sale of the shares, which were recently released from sequestration by President Ramos. However, there are doubts the sale will proceed.

In St Louis, Anheuser-Busch said that it was aware of the speculation, and that it did not normally comment on stories concerning possible acquisitions.

However, it added: "We are continually evaluating opportunities to grow the business".

San Miguel, the Philippines' flagship company, has been dogged by a share ownership dispute since 1986, when the then government sequestered 48 per cent of the group on the grounds it had been fraudulently acquired by Eduardo Cojuangco, a business associate of former president Ferdinand Marcos.

Tirso Antiporda, head of the United Coconut Planters Bank, which administers some of the sequestered shares on behalf of the government, said Anheuser-Busch was one of the companies on a list of interested parties drawn up by Salomon Brothers, which is advising San Miguel.

Mr Antiporda is a member of the three-man committee set up by Mr Ramos to conduct the sale.

First Pacific, the Hong Kong-based conglomerate, has already expressed interest. It recently took a 2 per cent stake in San Miguel, but negotiations with Mr Cojuangco and the government to acquire more were called off in February.

Mr Antiporda said he was targeting four bidders and the sale committee would finalise terms next week.

Assuming the stake is proportionately split between the company's A and B shares, it would be valued at about 38bn pesos at current prices, said Matthew Sutherland, head of research at Paribas Asia Equity in Manila.

However, analysts doubt the sale of the 27 per cent stake will proceed under the present administration. Mr Cojuangco provided financial support for the electoral bid of Joseph Estrada, the leading candidate for the Philippines presidency.

"It's hard to see how you can move such a big block of disputed shares in the country's flagship group in the dying days of a lame duck administration," said one foreign broker.

Sanluis finds growth without frontiers

Regional trade agreements have brought new markets, writes **Leslie Crawford**

Antonio Madero Bracho, chairman and chief executive of Mexico's Sanluis Corporación, is a walking advertisement for the North American Free Trade Agreement.

Before Mexico joined Nafta in 1994, Sanluis was a medium-sized gold and silver producer that had diversified into manufacturing vehicle components.

Today, it can hardly keep up with the orders pouring in from the big three carmakers in Detroit. Exports now account for almost 90 per cent of the company's revenues.

Over the past four years, Sanluis has doubled its parts sales, captured a 40 per cent share of the US market for leaf-springs used in pick-up trucks and sport utility vehicles, and secured enough long-term contracts to ensure that sales will double again, to $500m, by 2001.

"Nafta opened the door for us," says Mr Madero. "We realised Mexico, Canada and the US would become a single production market, with converging engineering and manufacturing practices that would allow carmakers to switch production across plants.

"We saw the opportunity to supply not only the Mexican-based vehicle assembly plants, but to jump into the larger US market – competitively, without protection and without subsidies."

Mr Madero began by establishing a bigger presence in Detroit, sending Mexican engineers to work with Ford, Chrysler and General Motors in the design and development of Sanluis' suspension and brake components. "It was a major step," he recalls, "because it convinced our customers of our commitment to the North American market."

At home, Sanluis worked on improving quality control systems for the more demanding US market. It hired Japanese and American consultants, and sent its technicians on training courses abroad.

Sanluis' manufacturing plants are equipped with classrooms, where employees attend "virtual university" courses beamed by satellite from the Tec of Monterrey, one of Mexico's most prestigious universities. "Our goal is to have our entire management and technical team proficient in English and computing by the turn of the century," Mr Madero says.

For the production chain to work smoothly, Sanluis has also provided capital and technology to its Mexican suppliers, in order to secure the right quality of inputs, delivered on time.

The company established joint ventures with Hendrickson International, and with Brembo, the Italian manufacturer of brake systems for Formula 1 racing cars. Brembo took a 35 per cent stake in Rassini Frenos, Sanluis' brake components subsidiary. "We gained access to their technology, and Brembo established a beachhead into the North American market," Mr Madero explains.

Last year, Rassini Frenos won its first long-term contract in the US – a $360m order to supply rear wheel discs for General Motors' new line of pick-up trucks and utility vehicles for the next eight to 10 years. This year, it will also begin exporting brake components to BMW's plants in North Carolina and Germany.

As a result of these and other big contracts, Sanluis last year embarked on a $140m expansion, its biggest capital investment programme to date.

At Piedras Negras, a border town in the northern state of Coahuila, Hendrickson-Rassini built a state-of-the-art plant to manufacture leaf-springs for export to Navistar in the US. Production began last August, and it is already being expanded to accommodate new orders from Nissan.

Suspensiones Rassini, a fully-owned Sanluis subsidiary, built a separate plant in Piedras Negras to manufacture rear suspensions for GM and Ford.

A new plant in the state of Puebla, in central Mexico, equipped with computer-controlled robots, will supply the $360m contract with GM.

But Sanluis' ambitions have not stopped with Nafta. In 1996, it saw the promise of the Mercosur market, the customs union which encompasses Brazil, Argentina, Paraguay and Uruguay, and launched itself as a multinational, acquiring Molas Fabrini, a Brazilian manufacturer of coil and leaf-springs for Mercedes-Benz, Volkswagen, Ford and Chrysler.

"In the space of four years, Sanluis has gone from being a Mexican company, to a Nafta company, to a continental operation," Mr Madero says.

"Our strategy is to supply our customers wherever they are located, and to consolidate our presence in the global autoparts industry."

Mexican exports of vehicles and auto parts

$bn	1994	1995	1996	1997
Cars, small vans, buses	3.06	7.53	9.92	9.98
Trucks	0.89	1.85	3.48	4.80
Chassis with engines	0.21	0.22	0.27	0.15
Car engines	1.75	2.32	2.22	2.17
Suspensions, leaf-springs	0.13	0.13	0.15	0.17
Auto parts	2.11	2.28	2.74	2.90
Engine parts	0.40	0.47	0.58	0.61
Other	0.28	0.52	0.45	0.48

Source: [illegible]

Tetley bags chance for stock market flotation

By John Willman, Consumer Industries Editor

Tetley, the world's second largest maker of teabags, yesterday announced its intention to float on the London Stock Exchange, less than three years after it was bought out from Allied Domecq.

The flotation is likely to value the group, bought by the management team and five venture capital groups for £190m ($310m) in June 1995, at more than £400m. It will consist of new shares and those being sold by existing shareholders.

A stockmarket listing will provide access to additional capital for product development and acquisitions, said Leon Allen, chairman and chief executive.

"The tea business is quite fragmented around the world," he said. "It is ready for consolidation."

The group is already the market leader in the UK with its circular teabags which have given it around a quarter of the market for the Tetley and Quickbrew brands. It is in the first or second position in another four of the ten largest teabag markets worldwide.

It sells tea in more than 40 countries, including India, China, Russia and Poland as well as the US and Canada. Its coffee business is principally in the US where Café Bustelo expresso beans and Medaglia d'Oro instant expresso coffee have leading positions among Italian and Hispanic consumers in New York and Miami.

Mr Allen was brought in to head Tetley after successfully leading the buy-out of Del Monte International Foods International from KKR. He also chairs Devro, the sausage skinmaker floated in 1993 for more than twice its acquisition cost two years earlier.

Since 1995, the Tetley management team has raised operating profit from £10.7m in the year to February, 1996 to £41.1m before exceptional restructuring items last year. Analysts suggested Tetley would be unlikely to fetch much more than the 10.7 times historic earnings, which is the average for the food sector – suggesting a price of around £430m.

Tim Potter of Merrill Lynch said there were already several alternatives on offer for those wishing to invest in tea. They include Unilever – with Brooke Bond and Lipton, the biggest maker of teabags worldwide – and James Finlay, which has its own plantations and makes tea for J. Sainsbury, the supermarket chain.

Joint sponsors and brokers to the flotation are Cazenove and SBC Warburg Dillon Reed. The shares will be placed with institutional investors in the UK, continental Europe and the US and also be offered to UK private investors.

Boots plans aggressive expansion in SE Asia

By Peggy Hollinger in London and William Barnes in Bangkok

Boots, the high street chemists group, has become the latest UK retailer to announce aggressive expansion plans in south-east Asia following the collapse in asset values caused by the recent currency crisis.

The company said it planned to open 40 pharmacy stores at a cost of £9.2m ($15.4m) over the next two years.

Lord Blyth, chief executive, said he believed there was potential for up to 150 stores in Thailand.

"We believe there is a much bigger market opportunity to go for," he said. Initial results from six pilot stores opened a year ago had shown that "our health and beauty format has proved popular", he said.

Although the pilot project had initially been run as part of a joint venture, the stores were now under Boots' sole control.

The announcement of Boots' expansion plans comes as Tesco, the UK's leading food retailer, is preparing to announce a deal later this week to buy a chain of hypermarkets in Thailand.

The country, which was the first in the region to suffer a collapse of its currency following a crisis in the banking sector, is proving a popular choice for UK retailers. Rents are low and lease terms flexible, according to Boots.

More importantly, although estimates for economic growth have been reduced following the crisis, some forecasts expect gross domestic product to rise by about 3 per cent a year, still higher than expectations for the UK.

"The economy seems to have bottomed out and we think it is over the worst," said a Boots executive.

Other companies have cited as an added bonus the fact that many Thais speak Cantonese, which will allow them to train managers who can be sent to China when that market begins to open up.

Martyn Bell, managing director of the retail operation in Thailand, said Boots had been attracted to the country by its growing middle class. In addition, "Thai woman have a very high beauty awareness," he said.

Boots estimates that the health and beauty market in Thailand is worth about £1bn a year. The group said it expected the 40 stores to return profits at the trading level within two years.

However, analysts said it would be several years before the operation would make any meaningful impact on overall profits. "It is clearly a long-term investment," said one.

A World Development Movement protester outside the RTZ meeting — Jason Orton

Rio Tinto millennium bug warning

Rio Tinto, the world's biggest mining group, is considering temporarily closing some vulnerable plants at the turn of the century to evade possible millennium bomb computer problems, writes Kenneth Gooding.

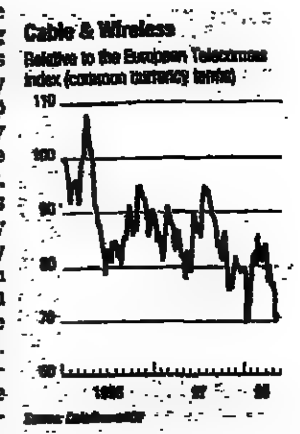
Leon Davis, chief executive, said the plants would start up again in 2000 when it was clear systems were working properly.

He told Rio Tinto's annual meeting that the company would spend at least $65m (£40m) to ensure its business was not disrupted by the "millennium bug".

The meeting was quieter than in recent years because some of the protest groups that usually send representatives held a meeting nearby.

COMMENT

C&W



Cable and Wireless cannot be accused of overweening ambition. It summed up its European strategy yesterday as two book-ends. Propped up between them is the very slim story of C&W's alliance with Telecom Italia. So far, and it is early days, this has the hallmarks of a very low-key venture. Equity stakes and boardroom appointments are not even on the radar screen and the investments are minimal. The idea seems to be to replicate C&W's approach in the US, and cherry-pick corporate customers where it can, rather than attempting to set itself as an alternative operator to the incumbent monopolists. Until more information comes to light, the best that can be said about C&W's alliance with Telecom Italia is it is low on financial risk.

Meanwhile, C&W's existing businesses are starting to show the benefits of more decisive management. Tidying up C&W's stable of minority investments makes perfect sense. Using the cash to deepen C&W's interests in, say, Optus and CWC also looks sensible. The icing on the cake would be a major deal in the US. Unfortunately, no acquisition that C&W could afford would be enough to make a difference. The alternative – ceding control – is hardly chief executive Dick Brown's style. In that, C&W's new management resembles the old.

Safeway

Safeway's fall from favour looks to be over remarkably quickly, if the news in yesterday's trading statement can be sustained. It is hard to argue with a 6 per cent improvement in like-for-like sales for the first six weeks of the year. But a note of caution is warranted all the same.

Does the improvement owe more to rectifying retail mistakes, such as ensuring better availability of products? In which case, it hardly looks a basis for sustainable advantage. Or does it owe as much to more forward-looking initiatives such as widening the product range and refurbishing stores? For the sector, Safeway's rehabilitation reduces the chances of a destabilising price war. But whether its competitors take a similarly emollient view of the relaunch of its ABC loyalty card and price promotions is another matter. The company cannot expect its rivals to ignore its resurgence. Indeed, the stronger it gets, the more determined will be their response.

Pentair concedes defeat in battle to buy Vero

By Susanna Voyle

Pentair of the US yesterday conceded defeat to its compatriot APW in the battle to buy Vero, the electronics and telecommunications equipment supplier.

On Tuesday APW, which started the bid battle with an agreed 157p-a-share cash offer, raised its bid to 192p, valuing Vero at £115.5m ($188m). The UK group makes and distributes racks and enclosures used to house cables and electronic equipment.

Yesterday, Pentair, the Minnesota-based diversified industrial group, said its 170p-a-share bid valued Vero fairly and it would "not pursue an acquisition at a price that does not provide an acceptable return to its shareholders". Vero was left vulnerable to takeover when the strength of sterling led to a fall in its share price last year.

Pentair and APW are striving to build up international networks so they can supply multinational companies.

APW's latest offer represents a premium of about 61 per cent to the price of Vero shares the day before the company announced it was in talks. APW, which was advised by Schroders, is funding the deal from its loan facility.

Shares in Vero – which were trading at 119p before the company announced it was in bid talks – yesterday closed down 8p at 187½p. Vero was advised by SBC Warburg Dillon Read and Cazenove.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Cable and Wireless	Yr to Mar 31	6,302	(7,002)	2,184♥	(1,418♥)	57	(30.8)	8.5✱	Sept 1	7.7	12.25	11.1
C&S Publishing ф	6 mths to Feb 28	7.31	(4.21)	0.198L	(0.181)	2.68L†	(4.26)	-	-	-	-	-
Century Inns	6 mths to Mar 31	25.2	(13.3)	4.54	(3.55)	6.8†	(6.8)	2.4	Aug 13	2.3	-	7.4
Colt Telecom	3 mths to Mar 31	35.5	(15)	10L	(6.66L)	6L	(6L)	-	-	-	-	-
Commercial Union	3 mths to Mar 31 ★	2,549□	(2,401□)	132	(173)	10.8	(15.7)	-	-	-	-	32.5✱
Fenner	6 mths to Feb 28	157.9	(123.4)	3.73♠	(8.68)	0.01†	(5.96)	1.9✱	Aug 3	1.8✱	-	5.3✱
General Accident	3 mths to Mar 31	1,568□	(1,515□)	130	(328)	18.1	(48)	-	-	-	-	37.5
Greycoat	Yr to Mar 31	23.4	(34.1)	12.0♠	(1.3♠)	10.8	(1)	1.5	July 14	1.2	1.5	1.2
Nord Anglia	6 mths to Feb 28	20.8	(17.7)	0.443	(0.107)	1.56	(1.06L)	1.5	July 3	nil	-	3
[illegible]	Yr to Dec 31	6.49	(6.83)	3.17	(2.15)	9.2	(8.4)	2.5	June 15	1.75	4	3.25*
Safeway	Yr to Mar 28	6,979	(6,590)	340.2♠	(420.6)	22.1	(26.8)	9.7	Aug 3	9.7	14.1	14.1
Sage	6 mths to Mar 31	88.8	(73.6)	24	(19.3)	14.68	(12.03)	1.07	June 22	0.97	-	2.9
Wellington U'writing	Yr to Dec 31	123□	(92.8□)	30.7♥	(10.5)	24.6†	(20.3)	8.4	June 30	2.8	7.2	6.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ✱Foreign income dividend. ф[illegible] stock. ★Comparatives restated. □Premium income. *Excludes special.

EQUITIES

Europe rallies on Wall St stability

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

Europe's stock markets rallied from Tuesday's losses as investors decided that the strength of the dollar and the stability of Wall Street outweighed the problems of Asia.

A further modest step was taken towards the creation of a single currency as the European Parliament approved the line of the board of the European Central Bank, voting for Wim Duisenberg by 439 to 40.

The FTSE Eurotop 300 rose 3.03 to 1,227.52 while the FTSE Ebloc 100, which comprises stocks in prospective single currency members, rose 4.47 to 1,107.36.

The FTSE Eurotop 100 index gained 9.68, or 0.3 per cent, to close at 2,821.92. It was another day of subdued trading in the new Eurotop 100 future on the London International Financial Futures Exchange, with only 28 contracts changing hands.

The D-Mark weakened slightly against the US dollar, giving the usual lift (in the form of improved export prospects) to European stocks.

Bonds were modestly higher, following on from a late rally in US Treasury bonds on Tuesday, which took the 30-year yield back down below 6 per cent. Yesterday's US retail sales data and producer prices numbers did nothing to disturb the composure of fixed income investors.

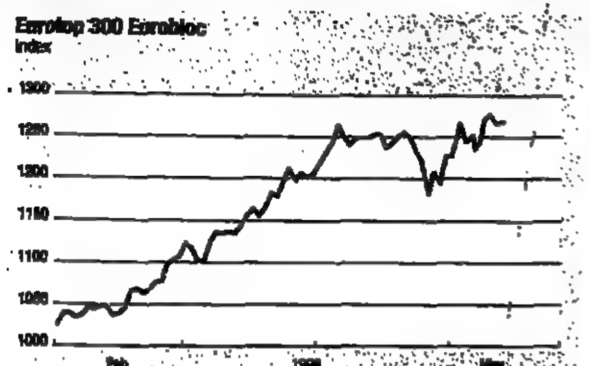
German 10-year bunds gained around a quarter of a point, ahead of today's Bundesbank council meeting. No rate change is expected by analysts.

The sharp falls in Asian stock markets, and the continuing political unrest in Indonesia, may have helped bonds through a "safe haven" effect; the same rationale seemed to be prompting investors to buy the Swiss franc. But equities did not appear to suffer any general Asian fall-out.

Oil proved to be the best performing sector, with the recent drift upwards in crude prices prompting a rally. Total gained Ecu 3.2 to Ecu 119.13, Elf Aquitaine Ecu 3.3 to Ecu 128.67, while Royal Dutch moved up Ecu 0.5 to Ecu 52.04.

The extractive industries sector fell 1.5 per cent, with Rio Tinto down Ecu 0.2 to Ecu 12.66 after one broker warned of its exposure to Japan's economic weakness.

Eurotop 300 Eurobloc index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

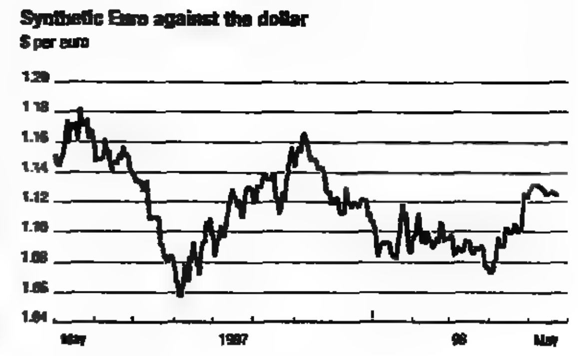
May 13	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rets (Ecu)
FTSE Eurotop 300	1227.52	+0.25	+3.03	1.92	11.08	1248.61
FTSE Eurotop 100	2821.92	+0.34	+9.68	1.99	6.48	999.84
FTSE Ebloc 100	1017.25	+0.44	+4.47	1.59	3.12	1020.43
FTSE Eurotop 300 Regions						
Eurobloc	1269.85	+0.43	+5.41	1.97	6.54	1281.82
UK	1146.00	+0.45	+5.15	2.78	17.40	1163.00
Europe Ex-Eurobloc	1195.38	+0.07	+0.85	2.29	14.23	1222.58
Europe Ex-UK	1274.61	+0.14	+1.84	1.49	7.41	1285.01
FTSE Eurotop Industry Sectors						
RESOURCES	1055.33	+1.25	+13.02	2.65	13.66	1084.14
Extractive Industries	978.26	-1.47	-14.63	2.64	0.00	978.26
Oil, Integrated	1011.84	+1.38	+13.28	2.84	6.09	1018.22
Oil, Exploration & Prod	1036.35	+4.09	+40.89	2.34	0.00	1036.35
GENERAL INDUSTRIES	1213.85	+0.46	+5.58	1.76	9.31	1226.80
Construction	1033.75	-3.33	-35.64	2.95	0.00	1033.75
Building Matls & Merchs	1038.16	+0.11	+1.12	2.55	0.00	1038.16
Chemicals	1018.43	+1.66	+16.59	2.11	7.89	1026.54
Diversified Industrials	1024.37	+0.55	+5.61	2.02	0.00	1024.37
Electronic & Elect Equip	1055.97	+0.40	+4.25	1.57	0.00	1055.97
Engineering	1019.77	+0.59	+5.98	1.69	0.40	1020.17
Paper, Pckg & Printing	1042.14	-0.33	-3.45	2.25	0.00	1042.14
CONSUMER GOODS	1159.45	+0.09	+1.01	1.59	3.80	1182.06
Automobiles	1059.82	-0.40	-4.29	0.85	1.98	1061.80
Alcoholic Beverages	1001.82	+0.98	+9.23	2.31	1.86	1003.72
Food Producers	1012.18	+1.09	+10.89	1.54	2.65	1014.26
Household Goods & Texs	1048.13	+1.49	+15.42	1.17	0.72	1049.87
Healthcare	983.22	+1.53	+14.79	2.33	0.00	983.22
Pharmaceuticals	993.74	-0.74	-7.42	1.34	1.03	994.78
Tobacco	1004.09	+0.34	+3.40	4.23	0.00	1004.09
SERVICES	1152.05	+0.33	+3.76	1.91	7.62	1176.65
Distribution	1004.07	-0.95	-9.59	0.98	2.70	1006.78
Leisure & Hotels	989.78	-0.04	-0.42	2.44	0.00	989.78
Media	1017.98	+1.33	+13.40	2.26	0.00	1017.98
Retailers, Food	987.58	+0.06	+0.59	2.05	1.34	988.93
Retailers, General	1002.55	+0.89	+8.85	2.24	0.00	1002.55
Telecommunications	1002.37	-0.63	-6.36	1.84	0.00	1002.37
Breweries, Pubs & Rests	988.80	+1.56	+14.87	2.77	0.00	988.80
Support Services	973.82	+0.55	+5.29	1.35	3.20	976.99
Transport	1007.54	+0.47	+4.71	2.39	0.59	1008.14
Information Technology	987.18	+1.81	+17.77	0.41	2.28	989.45
UTILITIES	1289.29	-0.02	-0.30	3.41	23.71	1306.25
Electricity	989.50	0.00	-0.05	3.55	0.00	989.50
Gas Distribution	985.55	-0.25	-2.49	1.89	83.72	1068.65
Water	947.74	+0.27	+2.52	5.32	0.00	947.74
FINANCIALS	1369.34	-0.10	-1.33	1.84	13.31	1381.02
Banks, Retail	996.39	-0.20	-1.99	2.07	2.97	999.25
Insurance	983.49	-0.20	-1.97	1.29	3.23	986.71
Life Insurance	982.82	-0.05	-0.48	1.52	0.00	982.82
Other Financial	1016.78	+1.88	+16.81	1.92	0.00	1016.78
Investment Companies	1015.54	+2.86	+28.11	2.17	0.00	1015.54
Property	946.37	0.00	+0.02	2.80	0.00	946.37

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

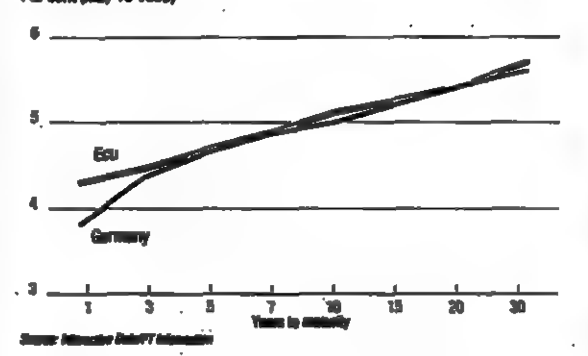
May 13	Fixed rate	Market rate	Diff bid v mid %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0364	0.01	0.01	7.0372	3.83	0.02
Belgium	20.6255	20.6367	0.05	0.07	20.6398	3.83	0.02
France	3.35386	3.3527	-0.03	0	3.3521	3.78	-0.03
Finland	3.04001	3.0389	-0.04	-0.02	3.041	3.92	0.11
Ireland	0.402676	0.397	-1.41	-1.18	0.4016	5.66	[illegible]
Italy	990.002	985.9809	-0.4	-0.36	990.9931	4.62	0.81
Luxembourg	20.6255	20.6367	0.05	0.07	20.6398	3.83	0.02
Netherlands	[illegible]	1.1288	0.01	0.02	1.1268	[illegible]	0
Portugal	102.505	102.4665	-0.04	-0.1	102.6972	4.17	0.36
Spain	85.0722	84.928	-0.17	-0.12	85.158	[illegible]	0.43
Germany	1					3.81	

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (May 13 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

May 13	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	104.610	5.14	-0.03	0.16	0.03
France (Rep of)	04/08	5.250	N/A	101.530	5.06	-0.04	0.15	-0.06
Italy (Rep of)	05/08	5.000	AA	98.720	5.17	-0.04	0.08	0.06
Portugal (Rep of)	06/08	5.375	AA-	101.560	5.17	-0.04	0.16	0.06
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.100	4.85	-0.04	0.32	0.16
Gen Electric Cap Crp	10/04	5.500	AAA	102.750	4.88	-0.03	0.19	0.14
Oest Kontrollbank	04/08	5.250	AAA	106.420	5.19	-0.05	0.11	0.08
Cred Local de France	04/08	5.250	AA+	98.110	5.37	-0.06	0.14	0.26
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.020	4.64	-0.07	0.21	0.18
Cred Foncier France	03/04	8.375	A	114.510	5.40	-0.03	0.11	0.56
Euro Inv Bank	04/04	5.250	AAA	102.400	4.77	-0.02	0.13	-0.07
ABN Amro Hldg. NV	04/07	6.375	AA-	106.560	5.43	-0.04	0.08	0.37

Source: Interactive Data/FT Information, London closing. Fungible bonds issued in tranches by Ecu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecu but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

May 13	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.13	-0.01	0.06	0.00	0.02	-0.02
Belgium	-0.11	0.01	0.05	0.03	0.04	-0.01
Finland	-0.16	0.06	0.05	-0.01	-0.32	-0.60
France	-0.18	-0.06	-0.08	-0.05	-0.01	-0.10
Germany	-0.22	-0.04	-0.02	-0.11	0.00	-0.11
Ireland	0.51	0.17	0.11	0.09	0.11	0.15
Italy	0.22	0.21	0.18	0.16	0.21	0.08
Luxembourg	-0.11	0.01	0.05	0.03	0.04	-0.01
Netherlands	-0.13	-0.03	-0.04	-0.06	0.02	-0.10
Portugal	-0.03	0.04	0.06	0.06	0.30	0.34
Spain	-0.04	0.05	0.11	0.08	0.20	0.26
"Outs"						
Denmark	0.43	0.33	0.26	0.19	0.13	0.15
Greece	5.59	4.36	3.53	2.87	2.58	2.28
Sweden	0.47	0.35	0.24	0.17	0.13	-0.15
UK	2.12	1.31	1.08	0.77	0.47	0.06

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

May 13	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	mth ago
KFW	AAA	01/09	6.000	DEM	0.00	0.01	0.03
France Telecom	AA+	11/06	6.250	FRF	0.20	0.19	0.30
Halifax	AA	07/07	5.625	DEM	0.19	0.20	0.29
Ing Bank NV	AA-	01/08	5.500	NLG	0.18	0.19	0.25
Bayer Hypo W Bk	A+	02/02	6.750	ITL	0.30	0.27	0.76
Cred Foncier	A	02/03	7.250	DEM	0.36	0.38	0.67
Thomson-Brandt Int	A-	03/04	6.375	FRF	0.30	0.34	0.54
Generale des Eaux	BBB+	03/04	6.250	FRF	0.21	0.25	0.59
Bank of China	BBB	07/08	7.125	DEM	0.60	0.71	0.48
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	0.68	0.65	1.42
Korea Dev Bank	B+	11/02	6.625	FRF	4.41	4.12	5.44

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

OTHER INDICES

FTSE EUROTOP 300

UK gilts unsettled by strong wages data

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Bond markets caught Asian flu yesterday, largely setting aside domestic short-term interest rate concerns, amid fears of a renewed bout of economic turmoil in the region and news of fresh violence in Indonesia that sent most Asian stock markets sharply lower.

An overnight rise in US Treasuries jerked European bonds higher at the open as Asian woes sent investors on a hunt for safe havens.

Of the major regional stock markets, only Japan and South Korea bucked the downward trend and Hong Kong's Hang Seng index suffered its biggest drop for two months.

"There's certainly a refocus on what's happening in Asia. There's a sense that if the Asian economies continue to worsen it'll be a case of the western world importing deflation and lower interest rates as a result," said Michael Derks, senior market strategist at Nomura. In the short term, this would be positive for bonds.

Concern over a possible interest rate rise by the Federal Reserve next week has dissolved for now.

Comments by Bundesbank officials indicating that no interest rate rise was on the agenda at today's bank council meeting helped maintain a firm tone, although prices closed off the day's highs.

Gilts, however, were mesmerised by a string of UK economic data and closed lower, unsettled by the release of stronger than expected wage data. Short sterling was close to six-week lows on the consequent revival of the interest rate debate.

US TREASURIES pushed higher on the release of positive news on the inflation front. By early afternoon the price of the benchmark 30-year Treasury bond was ⅜ higher at 102⅜, sending the yield down to 5.946 per cent.

In the shorter-term sector of the market, three-year notes soared ⅜ to 100⅜, yielding 5.591 per cent, the day after the final auction of the three-year.

Ten-year notes also advanced, by ⅜ to 98½, yielding 5.676 per cent, while two-year notes gained ⅛ to 100⅜, yielding 5.572 per cent.

Retail sales rose 0.5 per cent in April, following no change the month before. Inflation remained well contained, with the producer price index rising 0.2 per cent in April.

UK GILTS rode a roller-coaster of mixed UK economic data. They opened higher but were soon knocked back by a surprise jump in average wage earnings growth to 4.9 per cent in February from 4.5 per cent in January. Together with jobless figures showing the unemployment rate at an 18-year low of 4.8 per cent, the data reignited wage inflation concerns.

"It's left one with the feeling that it's not necessarily a done deal that the interest rate cycle has peaked," said Stephen Hannah, head of research at Industrial Bank of Japan.

The Bank of England's quarterly inflation report, also released yesterday, did nothing to suggest that there would be a rate cut this year. It said the Bank expected inflation to stay close to its 2.5 per cent target over the next two years.

"The tone was very much one of being cautious in terms of the upside risks to inflation, rather than pointing to the downside risks for the economy," said Steven Andrew, gilts strategist at Merrill Lynch.

The June gilt future settled at 108.07, some 0.07 basis points lower, in healthy trading volume of 80,000 contracts. In the cash market, the gilt spread over bunds was unchanged at 98 basis points.

GERMAN BUNDS traded off the day highs but still ahead after US producer price and retail sales data failed to knock them out of their current trading range of 106.60 to 107.

The June bund future settled 0.30 basis points higher at 106.75.

ADB issue generates strongly differing views

INTERNATIONAL BONDS

By Edward Luce and Vincent Boland

The international bond markets went into overdrive yesterday, with senior bankers taking strongly differing views on the Asian Development Bank's global offering.

The $2bn issue, lower than earlier talk of $3bn to $4bn, generated fierce controversy between the three lead managers and those that failed to pick up the mandate.

Nomura and Morgan Stanley, joint leads with SBC Warburg Dillon Read, said the deal had performed well, with particularly strong demand from Asian and some US accounts.

The five-year bond, which was priced to yield 27 basis points over the benchmark Treasury, was comfortably the largest bond offering by the ADB to date.

However, the issue was affected by the negative fall-out from events in Indonesia and South Korea in recent days, said some syndicate heads in London.

"The ADB is arguably a better credit than the World Bank," one official said. "But the fact that it has Asian in its title is counting against it in these conditions."

The bond, part of the $9.5bn the ADB plans to raise this year to help finance its contribution to regional rescue packages, was priced about six basis points wider than the World Bank's five-year benchmark.

Officials at the lead managers said there had been some flow-back of paper after launch but accused rival investment banks of trying to undermine the performance of the bond by taking short positions.

Peter Balon, head of funding at the ADB, said the bank was happy with the deal's performance. It had scaled down the offering after taking soundings from the market, he said.

"Some of the glitter has gone from these recent $4bn jumbo bond issues," Mr Balon said. "Our aim is to offer bonds that clear the market."

INSTITUTO CREDITO OFICIAL, the Spanish state development bank, launched the first dollar global bond by an issuer from Spain, with a $1bn 10-year priced to yield 37 basis points over the relevant US Treasury.

The size had been increased from $750m "on strong demand and priced at the tight end of the range", benefiting from the scarcity of European sovereign paper, said officials at JP Morgan, joint book-runner with Goldman Sachs. It was the first ICO issue available to US investors.

COUNTRYWIDE HOME LOANS, the US mortgage institution, issued a $400m five-year bond targeted at European investors after a long roadshow.

An executive at Lehman Brothers, joint lead with Merrill Lynch, said 30 per cent went to French investors, 25 per cent each to Germany and Italy, and 20 per cent to the UK, with 45 per cent bought by banks, 30 per cent by funds and 25 per cent by money managers.

HMV, the music retailer, brought a two-tranche high-yielder raising $125m and £135m. The sterling tranche was priced to yield 498 basis points over the relevant UK gilt, at the wider end of the 450bp-500bp indicated range.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Asian Development Bank	2bn	5.75	99.342R	May 2003	0.25R	+27(5⅞%Apr-03)	MSDW/Nomura/SBCWDR
Instituto Credito Oficial	1bn	6.00	99.303R	May 2008	0.325R	+37(5⅝%Feb-08)	Goldman/JP Morgan Secs
Countrywide Home Loans‡	400	(a)	99.826R	Jun 2003	0.30R		Merrill Lynch Intl
Xerox Capital Corp	200	5.875	99.816R	Jun 2000	0.125R	+30(Apr00)	Lehman Brothers Intl
CAF(b)	50	6.75	99.654R	May 2003	0.35R	+105(Apr03)	Deutsche/Merrill Lynch
D-MARKS							
GECC	300	4.50	99.17R	Jun 2003	0.25R	+10(Nov02)	SBC Warburg Dillon Read
Yorkshire B/S(c)‡	200	(d1)	100.06	Aug 2004	0.20		Barclays Bank Frankfurt
FRENCH FRANCS							
Banesto(c)‡	1bn	(d1)	100.29R	Jun 2003	0.35R	+5(5-yr)	Merrill Lynch Finance
YEN							
DSL Bank(f)♦	11.8bn	5.04(m)	100.00	Jun 2000	1.80		Nomura International
ECUS/EUROS							
Allgemeine Hypo(g)	1bn	4.25(i)	99.75R	May 2000	0.04R	+10(i)	BVB/CDC/DB/DG/DKB
LB Schleswig-Holstein	250	4.625(i)	99.725R	May 2002	0.225R	+10(i)	Barclays Capital
Bear Stearns Companies‡	200	(j)	99.86R	May 2001	0.15R		Bear Stearns Intl
PESETAS							
DePfB	10bn	2.80(k)	92.36	Apr 2002	0.10	-4(7.9Feb02)	Caja de Madrid
SOUTH AFRICAN RAND							
World Bank	250	17.00(l)	99.48R	Oct 1999	0.10R		TD Securities
RUSSIAN ROUBLES							
EBRD(n)	400	32.00	99.77R	Jun 1999	0.25R		ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. § Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +25bp. b) $150m launched Tuesday increased to $200m. c) Fungible with DM300m. Plus 23 days accrued. c1) 3-mth Libor +10bp. d) Callable from Jun 03 at par. d1) 5¼% to 3/6/03, then 3-mth Pibor +66bp. g) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. i) Redeemed in £. j) 3-mth Libor +15bp. m) All payments in US$. n) Over interpolated yield. l) Long 1st coupon. m) Monthly. p) Oeffentliche Pfandbrief. s) Short 1st coupon.

NEWS DIGEST

PHARMACEUTICALS

Croatia completes sale of remaining stake in Pliva

The Croatian government yesterday completed the sale of its remaining stake in Pliva, the pharmaceuticals group, raising $238m in the final tranche of the company's privatisation.

Shares in Pliva, issued as Global Depositary Receipts to be listed in London, were priced at $16.60 for international investors, with Croatian institutions paying Kn529.18 a share. The GDRs, five of which represent one share, closed at $16.80 in London trading yesterday.

A small tranche of shares reserved for domestic retail investors, the first time this had been done in Croatia, met with a somewhat muted response. The tranche was sold at a 10 per cent discount to the institutional price, which was set at market level. Altogether, the domestic retail and institutional tranches raised $33m of the total proceeds.

Borislav Skegro, Croatia's finance minister, nevertheless said the domestic retail tranche showed "widespread support" for the privatisation programme. The government is keen to develop a retail share market to lend popular support to future privatisations.

The total Pliva stake on offer was 17 per cent, with the government selling its full 14 per cent stake and the European Bank for Reconstruction and Development selling a 3 per cent stake to cut its holding to 8 per cent.

The deal completes the first big Croatian privatisation and increases the free float of Pliva shares to some 54.5 per cent. The state no longer holds shares directly, although public pension funds retain big holdings, as do Croatian banks.

Pliva is the biggest pharmaceuticals group in central Europe, with a market capitalisation of about $1.7bn.
Vincent Boland

CZECH REPUBLIC

Komercni Banka raises $200m

Komercni Banka, the biggest Czech bank by assets, has made a $200m subordinated bond issue to raise its capital adequacy as it struggles to increase bad debt provisions ahead of its planned full privatisation.

The 10-year issue, which has a call option after five years, was priced to yield 350 basis points over five-year US Treasuries. Credit Suisse First Boston, which lead-managed the issue with J.P. Morgan, said it had been bought equally by US and European institutional investors.

Komercni said the issue, which had been postponed from last year because of the downturn in world capital markets, was the largest of its kind by a financial institution from central and eastern Europe. Ceska Sporitelna, the country's second largest bank, is due to follow with a similar bond of the same size later this year.

The issue will raise the bank's BIS capital adequacy ratio by 2 percentage points, to 11.21 per cent. Komercni's capital adequacy ratio has suffered as it has raised provisions for its non-performing loans, which have increased to around 30 per cent of total loans. Robert Anderson, Prague

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

May 13	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/08	7.000	103.6881	4.86	-0.04	-0.06	+0.09	-1.37
	10/07	10.000	131.3177	5.62	-0.07	-0.08	+0.09	-2.01
Austria	06/02	7.000	103.6200	4.14	-0.02	-0.05	+0.01	+0.30
	07/07	5.625	103.9000	5.05	-0.03	+0.01	+0.13	-0.81
Belgium	01/02	4.000	98.6600	4.29	-0.01	-0.05	+0.06	-0.50
	07/07	6.250	108.1100	5.08	-0.05	+0.02	+0.16	-0.72
Canada*	05/08	4.750	98.4300	5.30	+0.04	+0.10	+0.32	+0.46
	06/07	7.250	112.8000	5.42	+0.01	+0.01	+0.16	-1.18
Denmark	12/99	6.000	101.0100	4.71	-0.01	-0.01	+0.36	+0.93
	11/07	7.000	112.4600	5.29	-0.04	-	+0.15	-1.98
Finland	01/99	11.000	104.4675	3.86	-0.03	-0.04	+0.10	+0.17
	04/08	7.250	114.4047	5.00	-0.04	-0.01	+0.17	-1.28
France	01/00	4.000	99.8003	4.12	-0.03	-0.05	+0.03	+0.40
	10/04	5.750	110.7600	4.76	-0.04	-0.01	+0.12	-0.26
	10/07	5.500	105.4900	5.02	-0.04	-	+0.16	-0.54
	10/25	6.000	105.9000	5.67	-0.04	+0.04	+0.18	-0.87
Germany	09/99	4.000	100.0800	3.97	-0.03	-0.09	-	+0.46
	11/04	7.500	114.5700	4.82	-0.03	-	+0.14	-0.40
	07/07	6.000	107.0700	5.01	-0.05	+0.01	+0.16	-0.89
	07/27	6.500	113.2800	5.57	-0.03	+0.03	+0.16	-0.91
Ireland	04/00	6.250	101.0000	5.03	-	-	+0.22	-0.81
	08/06	8.000	118.4500	5.19	-0.03	+0.01	+0.16	-1.26
Italy	05/00	6.000	102.7300	4.55	-0.02	-0.00	+0.05	-2.02
	04/02	6.250	105.3100	4.77	-0.03	-0.02	+0.06	-2.07
	07/07	6.750	111.3200	5.18	-0.02	+0.03	+0.15	-2.14
	11/26	7.250	121.8300	5.88	-0.02	+0.04	+0.16	-2.19
Japan	03/00	6.400	110.0200	0.41	+0.02	-0.07	-0.15	-0.80
	12/02	4.800	117.4000	0.92	+0.02	-0.06	-0.24	-1.01
	09/06	3.000	111.3500	1.37	+0.01	-0.09	-0.27	-1.13
	09/17	3.000	111.9900	2.23	-	-0.06	-0.28	-1.03
Netherlands	11/99	7.000	104.7800	4.10	-0.02	-0.07	-	+0.40
	02/07	5.750	105.2800	4.99	-0.03	+0.01	+0.16	-0.81
New Zealand	02/00	6.500	98.2576	7.06	-0.06	-0.11	-0.26	+0.18
	11/06	8.000	107.6444	6.79	-0.05	+0.01	-0.13	-0.79
Norway	01/99	9.000	102.9600	4.06	+0.02	+0.05	+0.24	+0.66
	01/07	6.750	108.7000	5.48	-0.07	+0.06	+0.25	-0.51
Portugal	03/99	8.500	102.4733	4.20	-0.02	-	-0.01	-1.17
	02/07	6.625	110.1300	5.16	-0.01	+0.04	+0.16	-1.38
Spain	07/99	7.400	103.6300	4.21	-0.06	-0.03	-0.05	-0.95
	03/07	7.350	116.3700	5.15	-0.02	+0.04	+0.13	-1.40
Sweden	01/99	11.000	104.0250	4.65	-0.03	-0.03	+0.02	-0.11
	08/07	8.000	119.7800	5.24	-0.04	-0.04	+0.08	-1.75
Switzerland	03/00	5.000	105.4600	1.80	-0.03	-0.03	-	+0.13
	06/07	4.500	111.0500	3.08	-0.06	-0.03	+0.13	-0.40
UK	08/99	6.000	99.1875	6.68	+0.03	+0.05	+0.10	-
	11/04	6.750	104.1875	5.97	+0.01	+0.06	+0.12	-0.98
	12/07	7.250	109.7188	5.90	-	+0.06	+0.15	-1.08
	06/21	8.000	127.0313	6.05	+0.01	+0.09	+0.18	-1.21
US	10/99	5.625	100.0310	5.60	-	+0.02	-	-0.67
	11/04	7.875	111.5180	5.73	-0.01	+0.03	+0.01	-0.84
	08/07	6.125	102.5310	5.77	+0.01	+0.05	+0.04	-0.96
	08/27	6.375	106.5090	5.97	-0.03	-	+0.01	-0.95
ECU	01/00	4.000	99.5800	4.24	-0.02	-0.07	+0.09	-0.07
	04/07	5.500	103.1200	5.06	-0.03	-	+0.13	-0.96

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

May 13	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.62	+0.62	-0.08
Austria	5.11	+0.11	-0.59
Belgium	5.14	+0.14	-0.56
Canada	5.42	+0.42	-0.28
Denmark	5.30	+0.30	-0.40
Finland	5.10	+0.10	-0.60
France	5.06	+0.06	-0.64
Germany	5.00	-	-0.70
Ireland	5.20	+0.20	-0.50
Italy	5.27	+0.27	-0.43
Japan	1.36	-3.64	-4.34
Netherlands	5.05	+0.05	-0.65
New Zealand	6.79	+1.79	+1.09
Norway	5.51	+0.51	-0.19
Portugal	5.17	+0.17	-0.53
Spain	5.19	+0.19	-0.51
Sweden	5.28	+0.28	-0.42
Switzerland	3.08	-1.92	-2.62
UK	5.88	+0.88	+0.18
US	5.70	+0.70	-
ECU	5.11	+0.11	-0.59

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

May 13	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	97.5689	7.75	+0.05	-0.14	+2.13
Poland	07/04	7.125	BBB-	101.9441	6.73	+0.05	+0.12	+0.88
Russia	06/07	10.000	BB-	92.8000	11.31	+0.20	+0.42	+5.58
LATIN AMERICA								
Argentina	09/27	9.750	BB	94.1000	10.39	+0.02	+0.30	+4.43
Brazil	05/27	10.125	BB-	93.3000	10.89	+0.11	+0.35	+4.93
Mexico	09/26	11.500	BB	118.2500	9.80	+0.04	+0.25	+3.83
ASIA								
China	07/06	7.750	BBB+	103.7686	7.12	+0.05	+0.11	+1.44
Philippines	10/16	8.750	BB+	93.6644	9.48	+0.05	+0.24	+3.67
Thailand	04/07	7.750	BBB-	94.1315	8.72	+0.10	+0.09	+3.02
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.8728	8.13	+0.05	+0.13	+2.54
South Africa	10/06	8.375	BB+	102.3687	7.86	+0.05	+0.06	+2.26
Turkey	09/07	10.000	B	101.3840	9.75	+0.03	+0.18	+4.19
BRADY BONDS								
[illegible]	03/23	5.250	BB	74.2707	8.48	+0.04	+0.22	+2.56
[illegible]	04/14	5.000	BB-	79.6350	9.96	+0.05	+0.62	+4.18
[illegible]	12/19	6.250	BB	83.2500	7.87	-0.02	+0.20	+2.02
[illegible]	03/20	6.750	B+	83.7500	9.01	+0.09	+0.32	+3.26

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	103.11	103.10	+0.34	103.11	103.10	71,433	99,805
Sep	102.84	102.82	+0.23	102.84	102.84	3,876	4,092

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	CALLS Sep		PUTS Jun	PUTS Sep
102	1.33	1.45	-	0.15	0.74
103	0.61	0.80	-	0.43	1.17
104	0.18	0.51	-	1.01	1.77
105	0.04	0.25	-	1.86	2.50

Est. vol. total, Calls 12,348 Puts 15,884. Previous day's open int., Calls 54,176 Puts 45,775.

Germany

NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106.68	106.75	+0.25	106.90	106.66	54884	143817
Sep	106.30	106.32	+0.25	106.38	106.30	644	3893

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
10650	0.41	0.49	0.69	0.83	0.16	0.67	0.67	1.01
10700	0.15	0.29	0.48	0.60	0.40	0.97	1.16	1.28
10750	0.04	0.15	0.33	0.43	0.79	1.33	1.31	1.61

Est. vol. total, Calls 13198 Puts 14002. Previous day's open int., Calls 208246 Puts 226669

NOTIONAL GERMAN BOND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104.84	104.91	+0.11	104.92	104.82	94,142	851,771
Sep	104.65	104.66	+0.12	104.70	104.67	1,470	11,667

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		104.85	+0.12			0	346
Sep		104.67	+0.11			0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	118.39	118.48	+0.20	118.59	118.37	28504	125831
Sep	116.68	116.82	+0.20	119.00	116.68	36	10405

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Jul	PUTS Jun	PUTS Jul
11800	0.58	1.20	0.10	0.28
11850	0.22	0.85	0.26	0.43
11900	0.07	0.56	0.61	0.84

Est. vol. total, Calls 3209 Puts 7303. Previous day's open int., Calls 80360 Puts 131446

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.34	108.30	+0.17	108.40	108.24	52,308	96,455
Sep	-	108.06	+0.18	-	-	64	808

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

[illegible]

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

[illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	102.82	102.90	+0.28	-	-	3	4,882

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Pound rebounds as UK earnings jump

MARKETS REPORT

By Simon Kuper

The pound rallied yesterday on signs that UK inflation might not be dead yet. However, the currency gave up most of its strong early gains, suggesting that sentiment remained poor.

The dollar crept higher against the yen as the Bank of Japan again did not intervene for its currency. The outlook for the yen and Asia remained bleak after further bloodshed and riots in Indonesia, and India's test of a nuclear device. The Indonesian rupiah fell to Rp11,200 against the dollar. Talk that China might devalue continued, as did attacks on the Hong Kong dollar.

The Canadian dollar came under attack after the Bank of Canada said that current levels of interest rates would probably be "broadly appropriate" for the next six months". Jean Chretien, the Canadian prime minister, reinforced the message. "We would like rates to stay low because we have low inflation," he said. But with the Canadian economy growing nicely, investors had been expecting a rate rise before too long. The central bank intervened in the market several times yesterday to defend its currency.

The pound closed in London at DM2.905, half a pfennig up on the day. The dollar firmed slightly to DM1.778 against the D-Mark and to Y134.0 against the yen. The Australian dollar fell 0.35 cents against the US dollar to $0.628, a new 12-year low.

■ The chorus of Bundesbankers rejecting rate rises has become deafening. Yesterday Olaf Sievert and Hans-Jürgen Krupp, both council members at the bank, joined the throng. But their remarks dented the D-Mark only slightly, because the market has heard it all before.

■ The Bank of England has specifically said that if average earnings grow faster than 4.5 per cent it cannot meet its inflation target on the medium term. So when earnings in the three months to March rose 4.9 per cent year-on-year, their fastest since 1992, the market took notice. The fall in the unemployment rate also suggested inflationary dangers. Short sterling futures contracts dropped, with the December 1998 contract losing 5 basis points, to reflect higher prospects for interest rates.

However, a subtle shift in the debate over interest rates seems to have taken place. Investors continue to wonder whether base rates have peaked. Increasingly, however, they are talking about the next rate cut. Parts of the Bank of England's Inflation Report yesterday will have encouraged them. The Bank reduced its forecasts for inflation, partly because of the economic slowdown. This helped explain the pound's fall later in the day. But the Bank also warned that if the pound kept falling, inflation might rise.

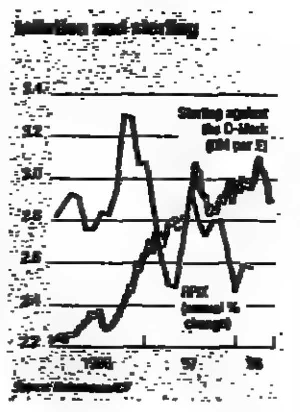
■ The market is discounting a Norwegian rate rise. The sole mandate of Norges Bank, the central bank, is to keep the krone steady, and so the currency's fall to a 10-month low against the D-Mark is likely to prompt some action. The krone slumped from NKr4.184 to NKr4.196 against the German currency yesterday, as investors worried that the revised 1998 budget due tomorrow would do too little to restrain economic growth. Norway has so far avoided raising rates for fear of boosting the krone, but this stance could create inflation.

ABN-Amro noted yesterday that the krone has now fallen through 103.0 on its Ecu index. In the past, Norges Bank has raised rates at that level.

■ Tomorrow's Group of Eight summit in Birmingham, the UK, will have to say something nice about the yen to stall the present run on the currency. Investors want to know whether the US stands with Japan for a stronger yen.

However, Michael Scarlatos, currency strategist at Bankers Trust in New York, said the US Treasury is unlikely to back a rise in the yen against the dollar. With the US economy growing at full pelt in the first quarter, he said, the Treasury needed a strong dollar to quell inflation. Otherwise, US interest rates would have to rise – and that would upset far more voters than the strong dollar does.

Inflation and sterling



■ POUND IN NEW YORK

May 13	—Latest—	— Prev. close —
£ spot	1.6325	1.6330
1 mth	1.6300	1.6305
3 mth	1.6253	1.6260
1 yr	1.6080	1.6107

■ OTHER CURRENCIES

May 13	£	$
Czech Rep.	52.2[illegible] - 53.0735	32.[illegible] - 32.[illegible]
Hungary	343.149 - 343.441	210.070 - 210.120
Iran	[illegible] - 4907.20	3000.0[illegible] - 3000.00
Kuwait	0.4[illegible] - 0.4986	0.3[illegible] - 0.3058
Peru	4.6301 - 4.6452	2.8400 - 2.8420
Poland	5.5562 - 5.5777	3.4075 - 3.4125
Russia	10.[illegible] - 10.0661	6.1575 - 6.1585
U.A.E.	5.9995 - 6.0037	3.6726 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

May 13		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4402	+0.0[illegible]	3[illegible] - 522	[illegible]	20.3703	20.3736	3.8	20.2498	3.8	19.7759	3.2	103.1
Belgium	(BFr)	59.9482	+0.1201	890 - 074	60.1740	59.7210	59.7552	3.9	59.3809	3.8	58.0134	3.2	102.6
Denmark	(DKr)	11.0686	+0.0191	616 - 716	11.1112	11.0281	11.0418	2.7	10.9824	2.7	10.788	2.5	104.9
Finland	(FM)	8.8279	+0.0163	[illegible]	8.8640	8.7980	[illegible]	3.8	8.7483	3.8	8.549	3.2	80.8
France	(FFr)	9.7395	+0.0143	346 - 441	9.7832	9.7058	9.7075	3.9	9.6456	3.8	9.4207	3.3	108.0
Germany	(DM)	2.9049	+0.0047	002 - 095	2.9184	2.8937	2.8954	3.9	2.8771	3.8	2.8106	3.2	104.0
Greece	(Dr)	903.762	-0.076	445 - [illegible]	907.357	902.827	906.013	-5.4	910.318	[illegible]	923.287	[illegible]	59.7
Ireland	(I£)	1.1533	+0.0028	521 - 544	1.1588	1.1502	1.1524	0.9	1.1498	1.2	1.1[illegible]	2.0	94.8
Italy	(L)	2864.24	+3.82	271 - 577	2877.28	2855.27	2858.51	2.9	2848.9	2.4	2785.82	2.7	78.0
Luxembourg	(LFr)	59.9482	+0.1201	[illegible] - 074	60.1740	59.7210	59.7552	3.9	59.3809	3.8	58.0134	3.2	102.6
Netherlands	(Fl)	3.2732	+0.0051	717 - 747	3.2878	3.2618	3.2625	3.9	3.242	3.8	3.1686	3.3	102.0
Norway	(NKr)	12.1883	+0.0552	812 - 983	12.2380	12.1098	12.1545	3.3	12.093	3.1	11.8838	2.5	98.3
Portugal	(Es)	297.856	+0.985	926 - 760	298.578	295.842	296.913	3.8	295.298	3.2	288.83	3.0	91.8
Spain	(Pta)	249.710	+0.411	577 - 842	247.810	245.950	246.085	3.0	244.82	3.1	238.383	3.0	78.9
Sweden	(SKr)	12.[illegible]	+0.1218	472 - 691	12.5704	12.4465	12.5258	2.8	12.466	2.8	12.2528	2.4	87.2
Switzerland	(SFr)	2.4151	-0.0064	[illegible]	2.4286	2.4100	2.4032	5.8	2.3783	5.9	2.2888	5.2	106.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.3
Ecu	-	1.4758	+0.0026	748 - 784	1.4819	[illegible]	1.4718	3.1	1.464	3.2	1.4321	3.0	-
SDR†	-	1.21170		-		-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6337	-0.000[illegible]	332 - 342	1.6379	1.6287	-	-	-	-	-	-	-
Brazil	(R$)	1.8747	+0.0022	740 - 753	1.8795	1.8691	-	-	-	-	-	-	-
Canada	(C$)	2.3578	+0.0173	505 - 587	2.3594	2.3402	2.3525	2.8	2.3436	2.4	2.3112	2.0	81.0
Mexico	(New Peso)	13.8041	+0.0473	174 - [illegible]	13.9788	13.8746	14.0865	-12.3	14.3596	-12.5	15.6704	-12.5	-
USA	($)	1.6340	-0.0002	336 - 345	1.6373	1.6300	1.6315	1.8	1.6260	1.7	1.6107	1.4	110.1
Pacific/Middle East/Africa													
Australia	(A$)	2.5972	+0.019	[illegible]	2.6118	2.5770	2.5923	[illegible]	2.5914	2.4	2.5863	2.3	80.4
Hong Kong	(HK$)	12.6607	-0.0036	580 - 634	12.6833	12.6281	12.6737	-1.2	12.7057	-1.4	13.0198	[illegible]	-
India	(Rs)	65.0008	+0.0125	725 - [illegible]	65.1240	64.8410	-	-	-	-	-	-	-
Israel	(Shk)	5.9913	-0.0178	[illegible]	6.0040	5.9822	-	-	-	-	-	-	-
Japan	(Y)	219.021	+0.308	[illegible] - 170	219.930	218.340	217.741	7.0	215.141	7.1	204.[illegible]	6.6	118.3
Malaysia	(M$)	6.3403	-0.0004	[illegible] - 500	6.4170	6.1898	6.4777	-28.8	6.63	-10.3	6.9747	-10.0	-
New Zealand	(NZ$)	3.0517	+0.0083	[illegible]	3.0792	3.0398	3.0562	-1.5	3.0648	-1.7	3.0834	-1.4	[illegible]
Philippines	(Peso)	64.6240	+0.4[illegible]	096 - 371	66.0540	64.1622	65.0898	-8.6	66.9082	[illegible]	70.2456	[illegible]	-
Saudi Arabia	(SR)	6.1284	-0.0008	[illegible] - 304	6.1405	6.1136	6.1216	1.3	6.109	1.3	6.0679	1.0	-
Singapore	(S$)	2.7066	+0.0226	[illegible]	2.7220	2.6808	2.7174	-4.7	2.721	-2.1	2.7407	-1.3	-
South Africa	(R)	8.3002	+0.0121	[illegible]	8.3738	8.2763	8.3808	-8.3	8.4473	-6.8	8.7948	[illegible]	-
South Korea	(Won)	[illegible]	+47.83	740 - 066	2321.00	2274.40	-	-	-	-	-	-	-
Taiwan	(T$)	54.6467	+0.17[illegible]	[illegible] - 740	54.7484	54.4606	54.7855	-3.0	54.946	-2.2	55.4782	-1.5	-
Thailand	(Bt)	63.7261	+0.40[illegible]	432 - 090	66.0290	62.2390	65.1602	-45.8	66.0045	-25.9	74.4665	-18.9	-

† Rates for May 12. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 13		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.5083	+0.0211	[illegible] - 125	12.5430	12.4878	12.487	2.1	12.4446	2.1	12.2778	1.9	102.9
Belgium	(BFr)	36.6880	+0.078	630 - 130	36.7780	36.5800	[illegible]	[illegible]	36.4985	2.1	36.0175	1.8	102.5
Denmark	(DKr)	6.7727	+0.0125	717 - 737	6.7801	6.7803	6.7677	0.9	6.7567	0.8	6.6877	1.1	[illegible]
Finland	(FM)	5.4026	+0.0108	[illegible]	5.4162	5.3945	5.3937	2.0	5.3772	1.9	5.3078	1.8	80.4
France	(FFr)	5.9865	+0.0095	[illegible] - 915	5.9787	5.9519	5.9498	2.2	5.9280	[illegible]	5.8407	1.9	105.7
Germany	(DM)	1.7779	+0.0091	773 - 782	1.7826	1.7747	1.7747	2.1	1.7695	2.1	1.745	1.8	103.8
Greece	(Dr)	306.380	-0.01	[illegible] - 400	309.980	306.100	310.14	-7.2	313.875	-7.0	324.95	[illegible]	59.6
Ireland	(I£)	1.4169	-0.0034	159 - 179	1.4250	1.4115	1.4150	0.9	1.4151	0.5	1.4249	-0.6	-
Italy	(L)	1752.80	+2.55	[illegible]	1758.25	1748.83	1752.82	0.2	1749.0	0.7	1729.45	1.3	75.8
Luxembourg	(LFr)	36.6880	+0.078	[illegible] - 130	36.7780	36.5800	36.6245	2.1	36.4985	2.1	36.0175	1.8	102.6
Netherlands	(Fl)	2.0032	+0.0034	[illegible]	2.0088	1.9986	1.9997	2.1	1.9926	2.1	1.996	1.9	101.5
Norway	(NKr)	7.4592	+0.0347	571 - 612	7.4782	7.4136	7.4498	1.5	7.4339	1.4	7.378	1.1	98.0
Portugal	(Es)	182.165	+0.825	140 - 190	183.430	181.320	181.98	1.2	181.51	1.4	179.195	1.6	92.5
Spain	(Pta)	150.965	+0.27	[illegible]	151.420	150.800	150.827	1.3	150.493	1.3	148.82	1.6	78.8
Sweden	(SKr)	7.6897	+0.0755	812 - 882	7.6953	7.6210	7.6772	1.9	7.6637	1.9	7.6072	1.8	87.7
Switzerland	(SFr)	1.4780	-0.0031	775 - 785	1.4850	1.4770	1.4729	4.1	1.4685	4.2	1.421	3.9	105.5
UK	(£)	1.6340	-0.0002	335 - 345	1.6373	1.6300	1.6315	1.8	1.6260	1.7	1.6107	1.4	102.7
Ecu	-	1.1074	-0.002	071 - 076	1.1097	1.1063	1.1097	-1.4	1.1118	-1.4	1.1248	-1.8	-
SDR†	-	0.742948	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	[illegible] - 998	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1473	+0.0015	471 - 473	1.1476	1.1465	-	-	-	-	-	-	-
Canada	(C$)	1.4429	+0.0108	426 - 431	1.4440	1.4346	1.442	0.8	1.4405	0.7	1.436	0.6	82.7
Mexico	(New Peso)	8.5215	+0.03	[illegible]	8.5240	8.5190	8.6215	-14.1	8.8265	-14.3	9.729	-14.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	110.5
Pacific/Middle East/Africa													
Australia	(A$)	1.5894	+0.0117	[illegible] - 901	1.5982	1.5783	1.5866	0.6	1.588	0.8	1.5758	0.9	83.7
Hong Kong	(HK$)	7.7493	-0.0012	478 - 488	7.7490	7.7465	7.7676	-3.0	7.8[illegible]	-3.2	8.0633	-4.3	-
India	(Rs)	39.7800	+0.0125	750 - 850	39.7870	39.7570	-	-	-	-	-	-	-
Israel	(Shk)	3.6665	-0.0165	[illegible] - 705	3.6778	3.6521	-	-	-	-	-	-	-
Japan	(Y)	134.040	+0.265	[illegible] - 090	134.400	133.800	133.465	5.2	132.295	5.4	127.925	5.2	118.8
Malaysia	(M$)	3.8803	+0.0003	750 - 850	3.9300	3.7900	3.9763	-27.8	4.0753	[illegible]	4.3[illegible]	-11.8	-
New Zealand	(NZ$)	1.8676	+0.0069	[illegible]	1.8822	1.8686	1.8707	-2.0	1.8761	-1.8	1.9046	-1.5	-
Philippines	(Peso)	39.5500	+0.3	[illegible]	39.8000	39.2000	39.8815	-10.4	40.540	-10.1	43.6115	-10.3	-
Saudi Arabia	(SR)	3.7505	-0.0001	504 - 506	3.7506	3.7503	3.7519	-0.4	3.755	-0.5	3.7672	-0.4	-
Singapore	(S$)	1.6565	+0.014	530 - 575	1.6635	1.6285	1.6655	-6.5	1.6725	-3.9	1.7018	-2.7	-
South Africa	(R)	5.0815	+0.008	[illegible] - 620	5.0830	5.0764	5.1242	-10.1	5.1825	-8.7	5.454	-7.3	-
South Korea	(Won)	1417.50	+29.5	550 - 050	1422.90	1396.80	-	-	-	-	-	-	-
Taiwan	(T$)	33.4435	+0.1135	370 - 500	33.4500	33.3500	33.5785	-4.8	[illegible]	-3.0	34.4435	-3.0	-
Thailand	(Bt)	38.9000	+0.25	[illegible]	39.9280	38.1500	40.55	-47.7	41.8	-28.7	46.25	-18.6	-

† SDR rate per $ for May 12. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. [illegible] Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 13		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.48	16.25	4.846	1.924	4778	5.460	20.33	496.5	411.5	[illegible]	[illegible]	[illegible]	3.933	2.726	[illegible]	2.461
Denmark	(DKr)	54.17	10	8.801	2.625	1.042	2588	2.958	11.01	269.0	222.9	11.36	2.182	0.904	2.130	1.477	197.9	1.333
France	(FFr)	61.55	11.36	10	2.983	1.184	2941	3.361	12.51	305.6	253.3	12.90	2.480	1.027	2.421	1.678	224.9	1.515
Germany	(DM)	20.64	3.810	3.353	1	0.397	986.0	1.127	4.196	102.5	84.93	4.322	0.831	0.344	0.812	0.563	75.40	0.508
Ireland	(I£)	51.98	9.596	8.445	2.519	1	2484	2.838	10.57	258.1	213.9	10.89	2.094	0.867	2.044	1.417	189.9	1.279
Italy	(L)	2.093	0.386	0.340	0.101	0.040	100	0.114	0.426	10.39	[illegible]	0.438	0.084	0.035	0.082	0.057	7.647	0.052
Netherlands	(Fl)	18.31	3.381	2.975	0.887	0.352	875.0	1	3.724	90.94	75.37	3.836	0.738	0.306	0.720	0.499	66.91	0.451
Norway	(NKr)	49.18	9.080	7.991	2.383	0.946	2350	2.686	10	244.2	202.4	10.30	1.981	0.820	1.934	1.341	179.7	1.211
Portugal	(Es)	20.14	3.718	3.272	0.976	0.387	962.3	1.100	4.095	100	82.88	4.218	0.811	0.336	0.792	0.549	73.58	0.496
Spain	(Pta)	24.30	[illegible]	3.948	1.177	0.467	1161	1.327	4.940	120.7	100	5.089	0.979	0.405	0.956	0.662	88.78	[illegible]
Sweden	(SKr)	47.75	8.814	7.757	2.314	0.919	2281	2.607	9.708	237.1	196.5	10	1.924	0.796	1.876	1.301	174.4	1.175
Switzerland	(SFr)	24.82	4.582	4.033	1.203	0.478	1186	1.355	5.047	123.3	102.2	5.198	1	0.414	0.976	0.677	90.68	0.611
UK	(£)	59.95	11.07	9.739	2.905	1.153	2864	3.273	12.19	297.7	246.7	12.56	2.415	1	2.358	1.634	219.0	1.475
Canada	(C$)	25.43	4.694	4.131	1.232	0.489	1215	1.388	5.170	126.2	104.6	5.326	1.024	0.424	1	0.693	92.90	0.626
USA	($)	36.69	6.773	5.961	1.778	0.706	1753	2.003	7.459	182.2	151.0	7.684	1.478	0.612	1.443	1	134.0	0.903
Japan	(Y)	27.37	5.053	4.447	1.326	0.527	1308	1.494	5.565	[illegible]	112.6	5.732	1.103	0.457	1.076	0.746	100	0.674
Ecu	-	40.63	7.500	6.601	1.969	0.782	1941	2.218	8.280	201.7	167.2	[illegible]	1.637	0.678	1.598	1.107	148.4	1

Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5642	0.5629	-0.0011	0.5643	0.5620	16,862	132,447
Sep	0.5654	0.5657	-0.0011	[illegible]	[illegible]	29	4,141
Dec	-	0.5683	-0.0012	-	0.5683	23	135

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6776	0.6779	+0.0003	0.6798	0.6761	9,218	59,745
Sep	0.6850	0.6850	[illegible]	0.6861	0.6840	182	1,566
Dec	-	0.6915	+0.0004	0.6925	[illegible]	18	52

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7499	0.7479	-0.0015	0.7509	0.7474	28,858	88,534
Sep	0.7578	0.7573	-0.0021	0.7580	0.7573	218	2,547
Dec	-	0.7709	+0.0094	-	-	1	248

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6380	1.6340	+0.0042	1.6348	1.6280	9,767	43,700
Sep	1.6280	1.6270	+0.0036	1.6270	1.6260	36	827
Dec	-	1.6200	+0.0028	1.6200	-	82	148

UK INTEREST RATES

LONDON MONEY RATES

May 13	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 6¾	7⅜ - 7⅛	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼
Sterling CDs	-	-	7⁵⁄₁₆ - 7¼	7⅜ - 7⅜	7⅜ - 7⅜	7⁷⁄₁₆ - 7⅜
Treasury Bills	-	-	7¼ - 7⅛	7¼ - 7⅛	-	-
Bank Bills	-	-	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	-
Local authority deps.	7⅛ - 7	7¼ - 7⅛	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7⅜
Discount Market deps	7⅛ - 7⅛	7¼ - 7⅛	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	5.5	5.25	5.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on May 8, 5.9369pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1998. Agreed rate for period May 26, 1998 to Jun 23, 1998, Scheme III 8.78pc. Reference rate for period Apr 1, 1998 to Apr 30, 1998, Schemes IV & V 7.527pc. Finance House Base Rate 8pc from May 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.570	92.545	-0.020	92.580	92.530	42296	181643
Sep	92.700	92.645	-0.045	92.700	92.630	40351	[illegible]
Dec	92.860	92.795	-0.055	92.880	92.770	49901	[illegible]
Mar	93.060	92.980	-0.050	93.060	92.970	32692	96794
Jun	93.240	93.190	-0.040	93.250	93.160	12777	78519

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
92625	0.010			0.090		
92750	0.005	0.050	0.185	0.210	0.165	0.140
92875	0			0.330		

Est. vol. total, Calls 25702 Puts 19713. Previous day's open int., Calls 376945 Puts 275480

BASE LENDING RATES

	%
Adam & Company	7.25
Allied Irish Bank (GB)	7.25
●Henry Ansbacher	7.25
Banco Bilbao Vizcaya	7.25
Bank of Cyprus	7.25
Bank of Ireland	7.25
Bank of India	7.25
Bank of Scotland	7.25
Barclays Bank	7.25
Brit Bk of Mid East	7.25
●Brown Shipley & Co Ltd	7.25
Citibank NA	7.25
Clydesdale Bank	7.25
The Co-operative Bank	7.25
Coutts & Co	7.25
Cyprus Popular Bank	7.25
Duncan Lawrie	7.25
Exeter Trust Limited	8.25
Financial & Gen Bank	8.00
●Robert Fleming & Co	7.25
●Guinness Mahon	7.25
Habib Bank AG Zurich	7.25
●Hambros Bank	7.25
Heritable & Gen Inv Bk	7.25
C. Hoare & Co	7.25
Hongkong & Shanghai	7.25
Investec Bank (UK) Ltd	7.25
Julian Hodge Bank	7.25
●Leopold Joseph & Sons	7.25
Lloyds Bank	7.25
Midland Bank	7.25
NatWestminster	7.25
●Rea Brothers	7.25
Royal Bk of Scotland	7.25
Scottish Widows Bank	7.25
●Singer & Friedlander	7.25
●Smith & Williamson	7.25
Sun Bank	7.25
TSB	7.25
United Bank of Kuwait	7.25
Unity Trust Bank Plc	7.25
Whiteaway Laidlaw	7.25
Yorkshire Bank	7.25

● Members of London Investment Banking Association
\- In administration

EMS EUROPEAN CURRENCY UNIT RATES

May 13	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	341.844	+0.277	-4.25	4.00	28
Ireland	0.796244	0.781778	+0.000381	[illegible]	1.43	12
Italy	1957.61	1941.61	+1.74	-0.82	0.41	6
Spain	168.220	167.223	+0.122	-0.59	0.18	4
Denmark	7.54257	7.50026	+0.00591	-0.56	0.15	4
Portugal	202.692	201.736	+0.226	-0.47	0.06	3
Finland	6.01125	5.98362	+0.00409	-0.46	0.05	3
France	6.63186	6.60255	+0.0068	-0.44	0.03	4
Germany	1.97738	1.96902	+0.00195	-0.43	0.02	4
Austria	13.9119	[illegible]	+0.0134	-0.42	0.01	3
Netherlands	2.22799	2.21873	+0.00218	-0.42	0.01	3
Belgium	40.7844	40.6170	+0.0386	-0.41	0.00	3
NON ERM MEMBERS						
UK	0.653644	0.676015	-0.004364	3.42	-3.71	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. [illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
1.630	0.15	0.99	1.45	0.85	1.78	2.59
1.640	0.04	0.65	1.08	1.98	2.32	3.22
1.650	-	0.40	0.78	2.98	3.19	-

Previous day's vol., Calls 709 Puts 0 . Prev. day's open int., Calls 14,787 Puts 14,475

■ PHILADELPHIA SE D-MARK OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
0.560	0.40	0.78	1.03	0.06	0.38	0.56
0.565	0.11	0.50	0.77	0.28	0.58	0.78
0.570	0.04	0.32	0.56	0.65	0.80	1.07

Previous day's vol., Calls 122 Puts 1,980. Prev. day's open int., Calls 13,887 Puts 22,497

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.29	94.28	-	94.29	94.27	59,520	449,930
Sep	94.25	94.25	-	94.26	94.23	55,771	437,808
Dec	94.17	94.17	-	94.18	94.13	98,250	371,895

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.96	94.95	-	94.96	94.95	285	2,116
Sep	-	94.92	+0.01	94.92	-	389	1,124
Dec	-	94.92	+0.02	-	-	1	35

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS May	CALLS Jun	CALLS Jul	CALLS Sep	PUTS May	PUTS Jun	PUTS Jul	PUTS Sep
96375	0.010	0.010			0.075	0.075		
96500	0	0.005	0.010	0.010	0.190	0.195	0.355	0.355
96625	0	0			0.315	0.315		
96750	0	0	0	0	0.440	0.440	0.585	0.585

Est. vol. total, Calls 3825 Puts 4401. Previous day's open int., Calls 379488 Puts 459082

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
98500	0.040	0.050	0.060	0.150	0.370	0.010
98625	0.010			0.255		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 38080 Puts 9987

WORLD INTEREST RATES

MONEY RATES

May 13	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅝	3⅝	3⅝	3¾	3⅞	6.00	2.75	–
France	3⅜	3¾	3⅝	3⅞	3¾	4.60	–	3.30
Germany	3¼	3¼	3⅝	3⅝	3¾	4.50	2.50	3.30
Ireland	5⅝	6⅜	6¼	5⅞	5⅝	–	–	6.75
Italy	5⅜	5¼	4⅞	4⅞	4⅝	8.50	5.00	5.83
Netherlands	3⅛	3½	3¾	3⅞	3⅞	–	2.75	3.30
Switzerland	1¼	1⅛	1½	1½	1⅝	–	1.00	–
US	5⅝	5⅝	5⅝	5¾	5⅝	–	5.00	–
Japan	⅜	⅝	½	⅝	⅝	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	5⅝	5⅝	5¾	5⅞	–	–	–
US Dollar CDs	–	5.44	5.47	5.53	5.61	–	–	–
ECU Linked Ds	–	4⅛	4⅛	4⅛	4⅛	–	–	–
SDR Linked Ds	–	3¼	3¼	3⅜	3⅜	–	–	–

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 13	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞
Danish Krone	5 - 4	4⅛ - 4	4¼ - 4⅛	4¼ - 4⅛	4¼ - 4⅛	4⅜ - 4¼
German Mark	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾
Dutch Guilder	3¾ - 3⅝	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3¾ - 3⅝	3⅞ - 3¾
French Franc	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	[illegible]	3⅞ - 3¾	3⅞ - 3¾
Portuguese Esc.	4⅝ - 4⅜	4½ - 4⅜	4½ - 4⅜	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½
Spanish Peseta	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½
Sterling	7¼ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7½ - 7⅜	7⅝ - 7½	7⅝ - 7½
Swiss Franc	2¼ - 1¾	1⅝ - 1½	1⅝ - 1½	1⅝ - 1½	1⅝ - 1½	1¾ - 1⅝
Canadian Dollar	4¾ - 4⅝	4⅞ - 4¾	5 - 4⅞	5 - 4⅞	5¼ - 5	5⅜ - 5¼
US Dollar	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾
Italian Lira	6 - 5	5⅜ - 5¼	5⅜ - 5¼	5 - 4⅞	4⅞ - 4¾	4⅝ - 4½
Japanese Yen	½ - ⅜	⅝ - ½	⅝ - ½	⅝ - ½	⅝ - ½	⅝ - ½
Asian $Sing	4½ - 4¼	7½ - 6½	7½ - 6½	7½ - 6½	7½ - 6½	7½ - 6½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.34	96.34	+0.02	96.34	96.34	7,479	63,180
Sep	96.15	96.16	+0.02	96.16	96.15	4,911	35,541

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.310	96.310	+0.010	96.320	96.310	39888	400635
Sep	96.140	96.155	+0.020	96.160	96.140	39870	393159
Dec	95.935	95.940	+0.020	95.945	95.930	21778	432278
Mar	95.800	95.805	+0.025	95.810	95.795	16859	302771

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
May		96.450	+0.020			0	287
Jun		96.400	+0.020			0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.270	95.250	-	95.270	95.230	17781	254134
Sep	95.750	95.750	+0.020	95.760	95.730	14172	263904
Dec	95.900	95.910	+0.030	95.930	[illegible]	3735	176430
Mar	95.790	95.790	+0.020	95.810	95.780	1956	202431

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.370	98.380	+0.050	98.390	98.340	9251	58543
Sep	98.160	98.150	+0.060	98.190	98.140	12846	48100
Dec	97.920	97.950	+0.050	97.970	97.920	3813	28206
Mar	97.820	97.850	+0.060	97.880	97.820	987	11336

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.39	-0.04			0	na
Sep		99.42	[illegible]			0	na
Dec		99.40	-0.03			0	na

* LIFFE futures also traded on APT

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.750	95.750	+0.005	[illegible]	95.750	184	[illegible]
Sep	95.800	95.800	+0.025	95.800	95.780	47	17481
Dec	95.910	95.910	+0.015	95.920	95.880	87	7121
Mar	95.808	95.805	+0.025	95.800	95.800	18	5340

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
95375	0.040			0.188		
95500	0.025	0.295	0.460	0.275	0.045	0.040
95625	0.010			0.365		

Est. vol. total, Calls 317 Puts 50. Previous day's open int., Calls 321608 Puts 2[illegible]

SEK

AB Svensk Exportkredit
(Swedish Export Credit Corporation)
(Incorporated in The Kingdom of Sweden with limited liability)

U.S. $200,000,000
Subordinated Floating Rate Notes due 2002

For the Interest Period 13th May, 1998 to 13th November, 1998, the Notes will carry an Interest Rate of 5.625% per annum with Coupon Amounts of U.S. $28.75 , U.S. $287.50 and U.S. $2,875.00 per U.S. $1,000, U.S. $10,000 and U.S. $100,000 Notes respectively. The relevant Interest Payment Date will be 13th November, 1998.

Bankers Trust Company, London Agent Bank

Birmingham Midshires
Building Society

£150,000,000
Floating Rate Notes 1999

The notes will bear interest at 7.5625% per annum for the interest period 12 May 1998 to 12 August 1998. Interest payable on 12 August 1998 will amount to £190.62 per £10,000 note and £1,906.16 per £100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

NOTICE TO BONDHOLDERS

Acer Peripherals, Inc.
(Incorporated with limited liability in Taiwan, The Republic of China)

US$ 110,000,000
1.25 per cent. Bonds due 2006

NOTICE IS HEREBY GIVEN that pursuant to Section 6.2 of the Indenture dated as of November 27, 1996 (the "Indenture"), among Acer Peripherals, Inc. (the "Company"), and The Bank of New York as Trustee and Principal Paying and Conversion Agent, relating to the issuance by the Company of US$ 110,000,000 aggregate principal amount of 1.25 per cent. Bonds due 2006 (the "Bonds"), a newly-adjusted Conversion Price of NT$34 will take effect on May 27, 1998, one day after the Record Date. This adjustment is based on the declaration of 139,212,498 shares in the form of the stock dividends and employee bonus for 1997. The stock dividend and employee bonus amount of NT$1,392,124,980 has been accumulated from the previous years as part of the appropriation of the unappropriated earnings and capitalising capital reserves. Pursuant to 6(A) (i) of the Terms and Conditions of the Offering Circular, the Conversion Right will be effective from May 27, 1998, one day after the Record Date.

May 14, 1998

BRAZILIAN STERLING LOANS : DECREE LAW 6019
STATE OF BAHIA 5% FUNDING LOAN 1928

NOTICE IS HEREBY GIVEN that all the outstanding bonds of the above loan will be redeemed at par on 1st July 1998 from which date all interest thereon will cease.

These bonds when presented at the London offices of Lloyds Bank Securities Services must have the coupon dated 1st July 1998 and all subsequent coupons, attached.

LLOYDS BANK SECURITIES SERVICES,
HAY'S LANE HOUSE, 1 HAY'S LANE,
LONDON SE1 2HA

COMMODITIES & AGRICULTURE

Push for further cocoa market liberalisation

By Gary Mead

The International Cocoa Organisation, which since its foundation 25 years ago has presided over the steady growth of the cocoa market, is helping the biggest producers to shift towards greater liberalisation.

The ICCO has succeeded in raising $17m in finance for a three-year project to investigate ways of improving cocoa marketing and trade in Cameroon, Ivory Coast and Nigeria, and facilitating an orderly progress towards more liberalised cocoa markets. The African region accounts for two-thirds of global production.

"This project will start in October, now it has been approved by the Common Fund for Commodities. We have to ensure that the pressure for liberalisation of cocoa production and marketing in these countries is not at the cost of several crucial factors," said Edouard Kouamé, the ICCO executive director.

Nigeria was the first west African country to liberalise its cocoa industry, in 1986. The Nigerian government dismantled the Cocoa Board overnight, in the context of a seriously deteriorating macro-economic situation. The result was that although farmers received much higher prices, quality control plummeted. More than a decade later Nigerian cocoa has still not recovered its premium price position.

Cameroon also attempted to free its cocoa production, with a similar outcome to Nigeria – poor marketing, broken contracts and low-quality beans. The biggest producers, Ivory Coast and Ghana, have so far done relatively little to liberalise their cocoa regimes.

The greatest impetus to dismantling state-run cocoa marketing boards usually comes from international donor agencies, such as the World Bank, which argue that a free-market system increases farmers' incomes.

In Ivory Coast, the world's biggest producer, the Caisse de Stabilisation – a version of a marketing board – has a number of functions, including setting export prices, selling some of the crop directly, and exercising quality control.

While the cost to farmers and taxpayers of running such marketing organisations is a burden, the ICCO is keen to see that their dismantling does not lead to the same problems that occurred following Nigeria's and Cameroon's reforms.

The money raised by the ICCO will be used to develop ways of introducing freer cocoa markets without sacrificing quality.

"In previous liberalisations, the quality of beans dropped because many new buyers, operators and exporters entered the market, often without much competence. In Cameroon's case, its beans went from a premium to a heavy discount," said Mr Kouamé.

Much of the money will be spent, therefore, on developing proper warehousing for the storage of beans; on training quality control experts; on providing farmers with access to global market information; and on ensuring that farmers and exporters understand the importance of transparent dealing and contractual integrity.

According to Mr Kouamé, such reforms are vital. World cocoa stocks have declined from 1.565m tonnes in 1990-91 to an estimated 1.235m tonnes in 1996-97. There is thus a real need to ensure African cocoa production is streamlined to keep pace with global demand, which is now growing at more than 3 per cent a year and is outstripping supply.

Pemex to overhaul three oil refineries

By Henry Tricks in Mexico City

Pemex, the state-owned Mexican oil monopoly, has invited bids from local and international companies for a major overhaul of three oil refineries it expects to generate investment of over $1bn.

The long-awaited tenders for the building of 23 new plants and modernisation of 11 others are part of a plan to eliminate Mexico's dependence on imported gasoline by 2001 and increase refining capacity of sour crude, known in Mexico as Maya.

The refineries are in Tula, in the central state of Hidalgo; Ciudad Madero, in the north-eastern state of Tamaulipas; and Salamanca, in the central state of Querétaro.

Pemex Refinación, the refining arm, said the projects would increase gasoline production by 74,000 barrels per day and diesel output by 33,000 b/d, and cut production of high-sulphur fuel oil by 105,000 b/d.

Pemex currently imports 45,000 b/d of gasoline from a five year-old joint venture with Shell at the Deer Park Refinery near Houston.

It has also this year sought alliances with Clark USA Inc, a US refiner, and Mobil Oil of the US in a bid to find secure markets for its heavy crudes, which require expensive coking facilities to turn them into lighter, cleaner fuels, such as unleaded petrol.

Last year, Pemex drew up plans to invest some $5bn between 1998 and 2000 in upgrading its refineries, but because of budget cuts in the wake of a slump in world oil prices it was not clear how much of this investment would be achieved.

In November, Pemex also awarded a $2.45bn contract to build a coking plant at Cadereyta in northern Mexico, aiming to double petrol and diesel output.

Palladium prices surge

MARKETS REPORT

By Kenneth Gooding, Robert Corzine and Gary Mead

Palladium prices reached new highs after surging in late European trading. The metal touched $393 a troy ounce at one point before easing back to close in London at $380 an ounce, up $52 from Tuesday's close or more than 15 per cent.

Underpinning palladium's record price is the lack of exports so far this year from Russia, the world's biggest producer, with no indication as to when the bureaucratic wrangling that is holding up exports will end.

Dealers said yesterday's surge was caused by New York investors who had sold palladium short – in the expectation that prices would fall – having to cover their positions.

Oil prices were hit by bearish inventory data from the US and a Venezuelan statement that was interpreted as a rejection of any early moves towards a new round of global production cuts.

In late trading on London's International Petroleum Exchange Brent blend for June delivery was quoted at $14.84 a barrel, down 27 cents on Tuesday's close.

An earlier move to higher prices was reversed after Luis Giusti, head of Petroleos de Venezuela, the state oil company, said several more weeks were needed to judge the impact of the global cuts agreed in April by the Organisation of Petroleum Exporting Countries and leading non-Opec producers.

American Petroleum Institute figures also helped push prices lower as they showed US demand for gasoline to be running at lower than expected levels.

Cocoa futures flagged on both the London International Financial Futures Exchange and the Coffee, Sugar and Cocoa Exchange in New York.

Liffe's July contract closed £3 higher at £1,144 a tonne, amid thin volumes – just 2,399 lots were traded, while on the CSCE the July contract was $11 down at midday at $1,722 a tonne.

Coffee trading on Liffe was equally slow: with just 1,823 lots changing hands, the July contract ended at $1,873 a tonne, $33 higher than the previous close.

Nicaragua heads back to the land

Leaders believe the key to recovery lies in the rural sector, writes James Wilson

The tiny, war-ravaged country of Nicaragua is taking issue with the century's great mantras. Many countries have long identified development with the growth of their cities but Nicaragua's National Rural Development Programme publishes a magazine called "To the Country" – and the phrase could well serve as the nation's rallying cry.

No one is suggesting a mass emigration from the cities, but Nicaragua's leaders believe the key to continued economic recovery lies in the rural sector and are making agriculture a cornerstone of their bid for growth.

A "return to the land" was one of the four components of a national emergency programme outlined last year, while Nicaragua's recent agreement with the International Monetary Fund – which produced $1.8bn of support from the international aid community – also places a firm emphasis on rural development.

President Arnoldo Alemán, a former coffee sector leader, says his country, one of the poorest in the western hemisphere, can once again become the bread-basket of the region but its recent history has created circumstances that still pose headaches, and these need to be addressed before the agricultural sector can make significant progress.

Agricultural production dwindled in the wake of the leftwing Sandinista revolution in 1979 and during the civil war of the eighties. Meat exports, 35m kg in 1979, were just 2.5m kg in 1986. Coffee exports were about a third lower at the end of the eighties than in the early years of the decade.

Production has swung upwards again. Last year nearly 22m kg of beef and more than 14,000 head of live cattle were exported. Coffee production has returned to its level of the late seventies. Sesame and peanuts have become important crops.

There is still ample potential. The government identifies 3.6m hectares of viable agricultural land, of which less than 20 per cent is under cultivation. The PNDR is helping farmers improve breeding stocks, and is providing access to markets, with more than 1,000km of rural roads built or remade in 1997.

Loans from the Inter-American Development Bank aim to improve production quality and shore up agricultural institutions. Chief among the obstacles to quicker growth, however, is the tangled web of property claims left by the Sandinistas' land reforms.

Large holdings were expropriated and co-operative farms set up. Half the area under cultivation was transferred, said Alvaro Herdocia of the United Nations Development Programme, but few will invest in land whose ownership is still in doubt.

A law passed last year set out a limit of 18 months to award titles to owners of small properties, but critics say this is unrealistic.

Another vital part of stimulating production is to reintegrate civil war combatants, the last 2,000 of whom were demobilised last year. Aid from bilateral donors and the UNDP is funding a $12m project to build homes and give land and credits to combatants' families.

"This project is a big step to make the country peaceful and to allow economic growth," said Yamileth Bonilla, minister of social action. But so far, less than 40 per cent of combatants' families have land titles, hampering access to credits.

A further barrier for small producers, according to Daniel Núñez Rodríguez, president of the National Agricultural and Cattle Rearing Association, is lack of credit to buy fertiliser and seed for the planting season.

Nicaragua's agreement with the IMF includes closure of the loss-making National Development Bank, which was the chief source of loans for farmers. But Mr Núñez Rodríguez says farmers know little about the Rural Credit Fund that will replace the bank.

With the fund still not set up, and commercial bank loans too expensive, "more than 100,000 producers are without access to credit".

"Property, credit policy and rural security need to be sorted out so that producers can make headway. The minimum that we ask of the government is that our people can work in peace," says Mr Núñez Rodríguez.

Nicaragua's agriculture sector is still suffering the effects of the 1980s civil war and land reforms. Here, workers' children on a state farm at the height of the Sandinista period

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1369.5-80.5	1387-88
Previous	1380.5-88.5	1392-93
High/low		1398/1385
AM Official	1358.5-59.0	1387-87.5
Kerb close		1387-88
Open int.	276,049	
Total daily turnover	39,512	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1262-67	1281-85
Previous	1267-72	1285-88
High/low		1290/1280
AM Official	1260-61	1280-81
Kerb close		1278-80
Open int.	7,186	
Total daily turnover	472	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	531-32	547-48
Previous	532.5-3.5	548-8.5
High/low		549/545
AM Official	531-31.5	546-47
Kerb close		545-46
Open int.	36,838	
Total daily turnover	5,373	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4900-910	5000-5
Previous	4980-90	5070-75
High/low		5125/4975
AM Official	4926-30	5030-35
Kerb close		4970-75
Open int.	52,159	
Total daily turnover	14,522	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5775-85	5695-700
Previous	5780-70	5695-700
High/low		5720/5690
AM Official	5780-85	5715-20
Kerb close		5695-700
Open int.	17,923	
Total daily turnover	3,216	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1058.5-59.5	1083-86
Previous	1086-87	1092-93
High/low		1105/1078
AM Official	1065-66	1092-92.5
Kerb close		1080-81
Open int.	83,125	
Total daily turnover	13,483	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1728-29	1745-46
Previous	1722.5-23.5	1736-37
High/low		1753/1735
AM Official	1722.5-23.5	1740-41
Kerb close		1745-46
Open int.	178,200	
Total daily turnover	56,150	

■ LME AM Official £/$ rate: 1.6363

LME Closing £/$ rate: 1.6330

Spot: 1.6308 3 mths: 1.6241 6 mths: 1.6175 9 mths: 1.6122

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	77.95	-0.55	78.80	77.80	485	1,377
Jun	78.40	-0.55	79.15	78.30	209	3,397
Jul	78.60	-0.70	79.70	78.30	6,111	25,047
Aug	78.60	-0.70	79.70	78.70	62	1,854
Sep	78.65	-0.70	79.60	78.60	308	6,691
Oct	78.50	-0.70	78.50	78.50	35	1,547
Total					8,300	61,671

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

	$ price	£ equiv	SFr equiv
Gold(Troy oz)			
Close	297.80-298.40		
Opening	296.85-297.25		
Morning fix	295.60	180.762	438.078
Afternoon fix	298.10	182.691	442.458
Day's High	298.60-299.00		
Day's Low	295.30-295.70		
Previous close	297.60-298.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.53	6 months	4.11
2 months	4.41	12 months	3.82
3 months	4.29		

	p/troy oz.	US cts equiv.
Silver Fix		
Spot	333.55	546.00
3 months	335.90	547.45
6 months	337.10	547.60
1 year	339.20	547.95

	$ price	£ equiv.
Gold Coins		
Krugerrand	296-300	181-184
Maple Leaf		
New Sovereign	69-72	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	298.3	+0.3			–	–
Jun	299.2	+0.3	300.7	296.1	40,185	84,895
Aug	301.4	+0.3	302.6	298.3	4,337	14,119
Oct	303.5	+0.4	304.5	300.5	1,896	6,008
Dec	306.5	+0.4	308.5	302.3	2,024	18,118
Feb	307.2	+0.4	307.9	307.9	328	9,157
Total					48,989	61,671

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	402.6	+15.3	410.0	386.2	3,040	10,628
Oct	399.0	+14.3	400.0	398.0	327	1,027
Jan	395.0	+14.3	400.0	400.0	4	46
Apr	392.5	+14.3	380.0	380.0	1	13
Total					3,369	11,716

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	372.65	+39.60	395.00	333.00	754	2,898
Sep	300.60	+12.00	300.60	295.00	372	1,495
Dec	291.60	+12.00	291.60	291.60	150	321
Total					1,128	4,812

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	551.6	-2.2	555.0	546.0	152	349
Jul	553.3	-3.2	559.5	542.5	23,635	46,041
Sep	556.6	-2.2	569.0	548.0	561	6,469
Dec	557.8	-1.7	582.0	546.0	742	12,692
Jan	558.0	-1.8	575.0	575.0	–	16
Mar	557.7	-1.4	580.0	552.5	21	2,806
Total					28,205	76,228

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	15.00	-0.24	15.32	14.90	34,515	78,941
Jul	15.72	-0.21	16.02	15.66	32,457	78,316
Aug	16.15	-0.17	16.42	16.11	11,461	46,770
Sep	16.45	-0.15	16.68	16.45	4,585	31,907
Oct	16.71	-0.08	16.87	16.71	2,049	21,095
Nov	16.88	-0.08	17.00	16.88	858	14,302
Total					89,274	462,249

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	14.91	-0.20	15.29	14.89	18,676	30,794
Jul	14.63	-0.19	14.85	14.55	23,908	85,161
Aug	14.95	-0.15	15.11	14.80	3,645	30,828
Sep	15.17	-0.01	15.31	15.09	569	13,201
Oct	15.43	-0.04	15.55	15.32	679	9,815
Nov	15.63	-0.07	15.69	15.53	386	10,973
Total					47,969	186,885

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	42.60	-0.38	43.40	42.60	13,021	41,180
Jul	43.75	-0.38	44.15	43.50	6,427	30,990
Aug	44.75	-0.36	45.15	44.55	1,767	12,696
Sep	45.80	-0.46	46.30	45.75	1,336	11,799
Oct	47.00	-0.34	47.35	46.85	211	9,256
Nov	48.00	-0.59	48.55	48.00	178	6,977
Total					34,823	171,702

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	132.75	-2.00	135.00	132.50	5,755	36,365
Jul	135.00	-1.50	137.50	134.75	1,914	11,203
Aug	137.75	-1.75	140.25	137.50	858	10,289
Sep	141.00	-1.25	143.25	140.50	218	11,434
Oct	143.50	-1.75	145.50	143.50	308	14,844
Nov	146.00	-2.25	147.75	146.00	581	6,865
Total					11,000	113,000

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	8.900	–	8.900	8.900	65	1,395
Jul	8.850	-0.050	8.850	8.840	30	1,325
Total					95	9,880

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.190	-0.066	2.265	2.150	21,938	42,835
Jul	2.245	-0.064	2.320	2.240	5,798	28,217
Aug	2.300	-0.057	2.370	2.300	2,672	22,485
Sep	2.340	-0.045	2.400	2.330	1,708	15,680
Oct	2.380	-0.042	2.446	2.380	2,187	17,187
Nov	2.530	-0.025	2.570	2.525	1,065	12,343
Total					46,000	258,946

■ UNLEADED GASOLINE NYMEX (42,000 US gals.; c/US gals.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	51.80	-0.80	52.75	51.80	16,506	39,035
Jul	52.95	-0.70	53.45	52.85	7,401	26,269
Aug	53.40	-0.50	53.90	53.15	1,506	17,111
Sep	52.95	-0.43	53.30	52.95	1,675	13,852
Oct	52.14	-0.84	52.40	52.40	181	4,413
Nov	51.30	-0.18	51.30	51.30	24	1,056
Total					27,436	103,925

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	78.00	-0.75	78.35	78.00	114	109
Jul	79.40	-0.75	79.75	79.40	166	1,747
Sep	78.00	-0.15	78.00	78.00	–	166
Nov	80.00	-0.15	80.15	79.50	220	3,307
Jan	82.00	-0.16	82.15	82.15	33	679
Total					533	6,656

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	297.50	+3.00	299.00	297.00	62	280
Jul	306.75	+2.25	308.75	304.75	11,984	67,774
Sep	316.75	+2.25	318.50	316.00	3,178	16,646
Dec	331.00	+2.25	333.00	328.50	3,983	25,160
Mar	343.00	+3.25	344.50	342.00	711	4,468
Jul	362.00	+4.00	363.00	362.00	126	264
Total					20,004	115,169

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	241.25	+2.50	243.50	238.25	3,165	3,690
Jul	248.75	+3.75	251.00	245.25	30,475	151,423
Sep	255.50	+3.50	258.00	252.50	2,761	38,787
Dec	260.75	+3.25	263.00	257.75	19,460	123,202
Mar	268.75	+3.25	270.50	265.00	1,565	11,017
May	273.75	+3.25	275.00	273.00	595	1,908
Total					58,000	337,000

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	78.00	+1.00	76.50	76.50	10	53
Sep	75.00	-0.25	75.00	74.75	2	19
Nov	77.00	-0.25	77.00	77.00	41	622
Jan	79.00	-0.25	79.00	79.00	62	115
Mar	81.00	-0.25	81.00	81.00	17	1
Total					78	1,082

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	654.00	+4.75	655.00	651.00	1,431	4,193
Jul	648.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	646.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	631.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	624.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	631.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb) [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton) [illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne) [illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point) [illegible]

PULP AND PAPER

■ PULPEX OMLX (S39; 24 air dry tons) [illegible]

FUTURES DATA

All futures data supplied by CMS.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1124	+3	1130	1130	11	394
Jul	1144	+3	1149	1139	1,572	30,258
Sep	1164	+4	1167	1159	625	21,736
Dec	1182	+3	1186	1180	223	31,833
Mar	1201	+3	1203	1197	148	37,578
May	1215	+4	1217	1211	37	13,176
Total					2,671	140,125

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1726	-26	1748	1748	57	42
Jul	1723	-10	1735	1715	6,309	27,283
Sep	1742	-10	1754	1735	1,595	13,276
Dec	1767	-9	1777	1760	839	16,079
Mar	1785	-9	1804	1790	404	9,530
May	1811	-11	1820	1808	81	3,783
Total					4,307	78,747

■ COCOA (ICCO) (SDR's/tonne)

May 12	Price	Prev. day
Daily	1347.07	1319.35

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	2036	+25	2045	2000	198	4,385
Jul	1874	+34	1875	1830	1,347	22,404
Sep	1802	+32	1802	1765	216	7,640
Nov	1757	+32	1745	1729	19	2,346
Jan	1717	+32	1700	1700	3	165
Mar	1677	+32	–	–	–	357
Total					1,781	37,380

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	126.55	-1.45	129.00	127.00	174	608
Jul	125.15	-0.65	127.90	125.00	6,098	17,415
Sep	123.05	-0.65	125.40	123.00	1,502	7,889
Dec	120.00	-0.45	122.00	120.00	440	6,654
Mar	117.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	115.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					8,644	37,149

■ COFFEE (ICO) (US cents/pound) [illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne) [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) [illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100) [illegible]

■ CRB Futures (Base: 1967 = 100) [illegible]

■ GSCI Spot (Base: 1970 = 100) [illegible]

■ LME WAREHOUSE STOCKS (tonnes) [illegible]

Nuts and seeds Prices from Kenko London $ per mt. Iranian pistachios 28/30 raw (in shell) naturally opened (round) crop 1997 at $3,800 FCA or CFR from Iran. Turkish hazelnuts 13/15 and 11/13, for new crop indication $4,350 CFR. Long snow white pumpkin seeds reckoned at $2,500 FOB Europe. Very low goods available. Indian cashews crop 1997 and 1998 CFR from top shippers, W320 at $5,800, W240 at $6,200, market rising. US almonds new crop estimate at 550m pounds; standard 5 per cent crop 1997 at $4,200 FAS, crop 1998 at $4,500. Argentine peanuts 38/42 at $800 CIF Europe for new crop.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	66.850	-0.175	67.200	66.725	10,041	36,861
Aug	68.175	-0.050	68.350	67.950	4,895	28,573
Oct	68.175	+0.225	68.225	67.825	2,217	14,869
Dec	69.225	+0.225	69.350	69.000	511	5,375
Feb	70.250	+0.250	70.250	69.950	270	1,943
Apr	71.300	+0.325	71.300	71.800	31	572
Total					17,691	87,864

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	61.075	-0.125	61.200	60.550	3,436	12,801
Jul	60.575	-0.700	61.050	60.250	2,082	8,831
Aug	57.250	-1.125	58.250	57.100	989	5,274
Oct	52.900	-0.800	53.700	52.750	246	3,874
Dec	53.100	-0.850	53.800	53.000	281	3,413
Feb	55.650	-0.475	55.900	55.600	58	310
Total					6,987	35,395

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
May	56.225	-3.000	57.900	56.225	225	1,007
Jul	52.925	-3.000	54.400	52.925	1,496	4,686
Aug	50.575	-3.000	53.050	50.575	147	1,207
Sep	49.975	–	50.250	49.800	3	29
Nov	46.150	–	45.700	46.125	28	236
Total					1,878	6,952

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

	Jun	Sep	Jun	Sep
1350	34	14	76	30
1400	11	41	49	53
1450	2	82	20	82

■ COPPER (Grade A) LME [illegible]

■ COFFEE LIFFE [illegible]

■ COCOA LIFFE [illegible]

■ BRENT CRUDE IPE [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) [illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne) [illegible]

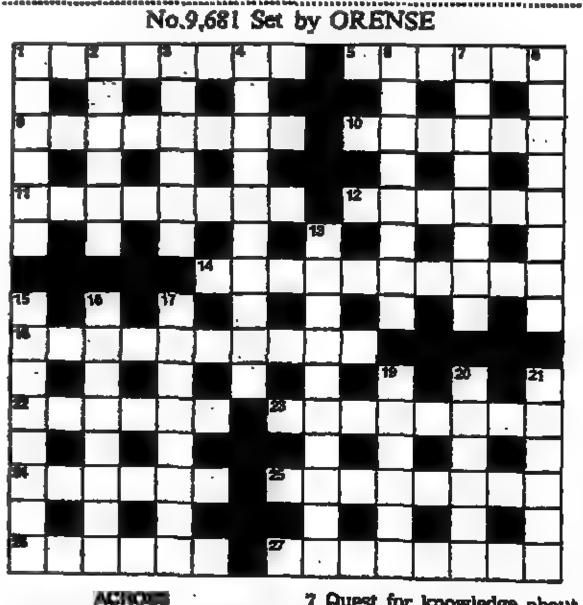
■ NATURAL GAS (Pence/therm) [illegible]

■ OTHERS [illegible]

JOTTER PAD

CROSSWORD

No.9,681 Set by ORENSE



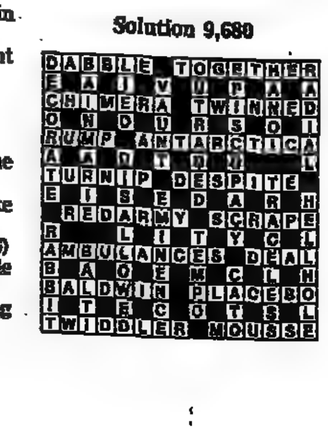
ACROSS

1 Large deficit in combustibles (8)
5 Fear of height overcame slip (6)
9 Gone! Fired over source of oil derivative (8)
10 One sat outside, ready for action (6)
11 Looks round shop with no time for sights (8)
12 Check mother's in to stay (6)
14 Managing to cope with egoist, then lose this ability (2,2,6)
18 Guiding principle or law (6,4)
22 Ship's chandler? (6)
23 Head off in panic! (8)
24 Many seem keen to be thin (6)
25 Angry about equipment getting wet (8)
26 Staggered by wound (6)
27 (8)

DOWN

1 Hidden near the top of the tree (6)
2 Raised dole in order to take this paper (6)
3 It may follow girl's train (6)
4 Superior food on the table (5,5)
6 Strange – Tories split going into Europe (8)
7 Quest for knowledge about ruined arches (8)
8 Game starts to deteriorate early – Geordie points to lack of respect (8)
13 A bit of security on the side (10)
15 Get grime off, but it does leave a sandy deposit (3-5)
16 Split between left and right demonstrated by some (8)
17 Listeners in here managed to practise (8)
19 Style of perm that's old fashioned (6)
20 Best price? No way, and get reprimand? (6)
21 How waste is carried by container on board ship (6)

Solution 9,680



FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

Frontrunner I (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline: Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	623½xd	+1½	646	407½	973	4.0	15.2
Bulmer (HP)	†	356	—	562½	295	162	5.2	11.0
Burn Stewart	†	29	—	70½	19½	18	10.6	–
Diageo		756xd	+13	784	432	5,122	2.4	33.0
Glenmorangie A	†	785	—	935	760	13	2.1	18.8
B	†	907½	—	1090	880	–	0.9	43.4
Highland	†	309½xd	–3	347	238	44	3.6	14.3
5¼pc Cv Sb Bd		97½	+½	99½	85½	–	5.9	–
Kirin Y		539	–¼	654¼	416⅝	–	1.0	–
Matthew Clark		201½		277½	157	13	12.4	6.5
Merrydown		48	+1½	108½	37½	–	9.7	–
Seagram C$		£28⅞	–⅛	£26⅞	£16⅞	–	1.1	–

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MEDIA - Continued

PHARMACEUTICALS - Continued

RETAILERS, GENERAL - Continued

TRANSPORT - Continued

AIM - Continued

OTHER INVESTMENT TRUSTS

PROPERTY

SUPPORT SERVICES

WATER

OIL EXPLORATION & PRODUCTION

AIM

AMERICANS

INVESTMENT COMPANIES

CANADIANS

OIL, INTEGRATED

SOUTH AFRICANS

OTHER FINANCIAL

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

LEISURE & HOTELS

PROPERTY - Continued

SUPPORT SERVICES - Continued

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

LIFE ASSURANCE

TELECOMMUNICATIONS

RETAILERS, GENERAL

FT Free Annual Reports Club

FT Company Focus / Focus Plus

MEDIA

TOBACCO

FT Cityline

TRANSPORT

PHARMACEUTICALS

Footsie shrugs off earnings scare to finish higher

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Strong earnings and employment data, and a warning about their impact on inflationary pressures, put paid to an early burst of strength that stretched across London's equity market.

Up over 43 points and back above the 6,000 mark within an hour of the opening, the FTSE 100 index subsequently retraced all its early gains and fell into negative territory before regaining some of its confidence later in the session.

The leading index finished the session 16.2 ahead at 5,972.9.

Once again, there were no problems for the market's *medium-sized and smaller* stocks with both the FTSE 250 and FTSE SmallCap indices maintaining their seemingly relentless onward march. Both hit fresh intra-day and closing highs.

At its best, the FTSE 250 hit an intra-day peak of 5,794.6 before settling 9.2 up at a record 5,788.9.

The FTSE SmallCap, meanwhile, ended the day at a closing and intra-day high of 2,743.7, up 4.6.

Footsie's recovery came in the wake of US economic news, notably a smaller-than-expected increase in US retail sales. That news offset *a slightly stronger than forecast* increase in US producer prices, up 0.2 per cent on the month against a consensus forecast of 0.1 per cent.

Sentiment in London at the start of the day was strongly positive, with dealers taking their cue from Wall Street's powerful performance on Tuesday, where the Dow Jones Industrial Average finished 70 points ahead and only around 30 points from its record closing high of 9,192, reached earlier this month.

One of the few worrying developments was the latest rioting in Indonesia which *put that country's stock* market under renewed pressure. Sentiment in Hong Kong also deteriorated, with the Hang Seng off 2.5 per cent.

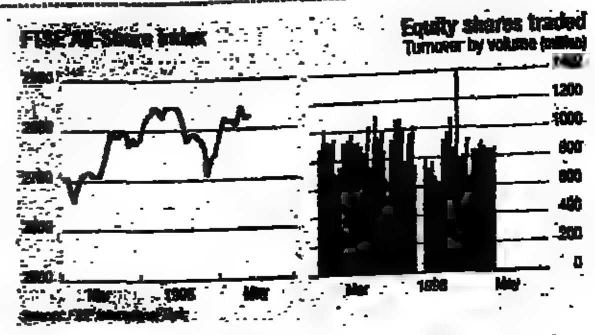
But the London market's initial confidence was thoroughly shaken by the news that underlying average earnings had risen by an annualised 4.9 per cent in February, well ahead of the 4.5 per cent consensus forecast. Similarly, unit wage costs in the March quarter rose by an annualised 5.4 per cent compared with expectations of a 5 per cent increase.

The unemployment total *in April fell by 17,700,* much more than the expected 10,000.

The market leaders gradually gave way, finally moving into the red over the lunchtime period and posting a session low of 5,949.5. But with the Dow pushing ahead again, breaching the 9,200 level and looking increasingly likely to post a new closing peak, London managed to finish the day in robust fashion.

Fund managers were none too surprised by the continuing strength of smaller stocks. "Any offers of new issues are being grabbed with both hands without too many questions being asked; it just has to be top of the market stuff," said one small companies specialist. He also pointed to the latest burst of takeover activity in the sector: "Five new bids today balanced by three profit warnings."

Turnover in equities was 854.4m shares at the 6pm count.



Indices and ratios

FTSE 100	5972.9	+16.2	FT 30	3699.5	+12.6
FTSE 250	5788.9	+9.2	FTSE Non-Fins p/e	23.45	23.22
FTSE 350	2893.7	+7.2	FTSE 100 Fut Jun	5999.0	+9.0
FTSE All-Share	2827.00	+5.91	10 yr Gilt yield	5.69	5.95
FTSE All-Share yield	2.77	2.78	Long gilt/equity yld ratio	2.15	2.15

Best performing sectors		Worst performing sectors	
1 Oil Exploration & Prod	+2.4	1 Extractive Industries	-1.5
2 Oil, Integrated	+1.4	2 Engineering	-1.0
3 Alcoholic Beverages	+1.4	3 Gas Distribution	-0.9
4 Media	+1.3	4 Household Goods & Texts	-0.8
5 Breweries, Pubs & Rest	+1.3	5 Distributors	-0.8

Crude support for oils

COMPANIES REPORT

By Peter John and Martin Brice

Stronger crude prices and broker recommendations gave a lift to some of the more embattled oil stocks.

Brent crude traded decisively above $15 a barrel in spite of the lack of momentum ahead of the next Opec meeting – scheduled for late June in Vienna.

Also, Morgan Stanley has published a weighty re-appraisal of the exploration and production sub-sector focusing on the potential for consolidation.

The broker says companies are suffering cash constraints because of low oil prices and are beginning to take on board the idea that larger is better.

It believes Lasmo, Enterprise, Hardy and Monument *all need to consolidate in* order to grow. And it has published share price targets of 650p for Enterprise, 320p for Lasmo, 70p for Monument and 330p for Hardy.

Lasmo was 9¾ firmer at 281¾p and Enterprise Oil 23 up at 575p, Monument firm at 61¾p and Hardy up 10 at 258p.

Among the leaders, BP was 13 up at 967p and Shell Transport up 7¼ at 463¾p.

Safeway delivered one of *the better performances in* the FTSE 250 as the shares rose 12½ to 376p following its bullish statement.

Results released at the same time gave no surprises given that the company had made a trading statement in February that suggested its figures would come in at about £375m. This 12 per cent fall was overshadowed by the trading statement, which prompted investor interest and saw some 10m of the stock traded.

Safeway said like-for-like sales in the first six weeks had risen 6 per cent, while total sales firmed 9 per cent. These data are better than *the 4 per cent growth in the* industry, and analysts were said to have upgraded their forecasts by about £10m-£20m to about £400m.

Results from Sage confirmed the pattern of strong growth among information technology stocks. Its pre-tax figures at £24m were about 10 per cent ahead of some estimates, and prompted upgrades of about 5 per cent for the full year to about £48m.

Graham Brown at Sutherlands pinpointed encouraging sales growth in the UK, good margins in France, and strong prospects in the US for State of the Art, the accounting software group that Sage bought in January.

Dresdner Kleinwort Benson's FTSE 250 team reiterated the broker's £14.50 price target on the stock, one of its "ten stocks you must own in the FTSE 250". Sage was up 45 at £13.57½.

IT stocks were foremost among FTSE 250 risers, with Micro Focus up 45 at 575p ahead of results today. Logica was up 102½ at £18.60. Attention is set to remain on IT shares, with analysts set to visit CMG on Friday. CMG was up 82½ at £22.80.

Colt Telecom rose 142½ to £16.82½ after what it described as "outstanding first-quarter profits".

Mining conglomerate Rio Tinto slipped as one leading broker highlighted the group's vulnerability to any further slowdown in Japan's economy.

The registered stock fell 13 to 859p with Schroder Securities warning on Rio's exposure to any Japanese weakening of before the company's annual meeting yesterday.

Rio's comments that "uncertainties remain concerning economic prospects for most of Asia" were expected to trigger downgrades. However, Rio also said the fall in non-ferrous metal prices late last year appeared to have been halted.

Weakness in Asian markets hit stocks with far eastern exposure. Standard Chartered fell 31½ to 825½p with additional pressure from Dresdner Kleinwort Benson, which reiterated its "sell" stance.

HSBC fell 61 to £16.95 in reaction to the sharp overnight decline in Hong Kong's Hang Seng index. Also, Morgan Stanley issued 17.5m American style put warrants expiring next May.

Vanguard Medica falls

Vanguard Medica plunged after it was revealed that the company had lost its marketing deal with SmithKline Beecham.

Although it said it was in talks with "big, big multinational drug companies" similar in size to SmithKline Beecham, the shares fell 168½ to 432½p. Kleinwort Benson, adviser to Vanguard, cut its year-end valuation of the company from 950p to 550p per share previously.

Yorkshire Group was heavily traded as one institutional investor sold a 3.6 per cent stake, which was placed by Sutherlands at 215p a share with another institution. Neither institution was believed to be among the company's top five shareholders. The underlying shares closed a penny higher at 210p.

Advertising and marketing group WPP was firmer at 381p after announcing it had repurchased shares for the third consecutive trading day.

House of Fraser lifted 5¾ to 174p in the wake of a presentation to institutional investors yesterday.

A "buy" recommendation from HSBC Securities lifted British Energy 7¾ to 550p.

Electronics company Vero dipped 8 to 187½p after Pentair of the US said it would not raise its 170p-a-share offer, leaving US rival Applied Power victorious with its 182p bid.

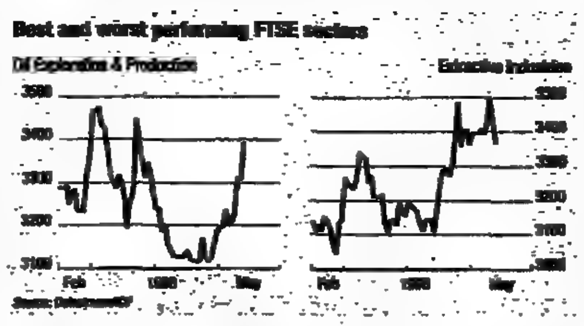
Education group Nord Anglia said its acquisition of accountancy training company EW Fact would leave it with a foothold in all education markets from nursery to tertiary. The paper offer values EW Fact shares at 59p. Its shares rose 23½ to 85p, while Nord Anglia was down 27½ at 400p.

A profits warning from Games Workshop knocked the shares down 22½p to 232½p after it said full-year figures would be "slightly below" market expectations. A consensus of forecasts suggested a pre-tax result of £18m was expected for the year to the end of May.

Aim-traded oil group Lepco was off 26½ at 53½p after it warned that results for the year to December were "considerably below current market expectations".

Drings of Bath, the maker of stone products for the construction industry, fell ¾ to 2¼p following its announcement that it had been "hit by a short-term collapse in demand which is believed to affect others in this industry".

Churchill China also talked of competitive pressure, and fell 50 to 282½p.



FT 30 INDEX

	May 13	May 12	May 11	May 8	May 7	Yr ago	*High	*Low
FT 30	[illegible]	3669.7	3620.3	3692.0	3665.4	3017.3	[illegible]	3381.7
Ord. div. yield	2.80	2.81	2.79	2.82	2.83	3.62	4.22	2.79
P/E ratio net	25.29	25.23	25.41	25.18	25.06	18.33	[illegible]	15.80
P/E ratio nil	25.07	25.00	25.19	24.95	24.84	18.14	26.99	15.71

FT 30 since compilation: high [illegible]; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3685.8	3691.2	3690.2	3690.8	3690.3	3686.4	3692.8	3697.5	3697.2	3701.1	3681.7

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STOCK MARKET TRADING DATA

	May 13	May 12	May 11	May 8	May 7	Yr ago
SEAQ bargains	[illegible]	82,102	69,865	60,467	60,570	56,580
Equity turnover (£m)†	-	na	2823.8	4061.8	2653.5	2872.3
Equity bargains†	-	na	83,110	81,036	37,250	57,432
Shares traded (mil)†	-	na	752.6	1024.9	707.4	791.5
Total market bargains‡	-	na	68,298	98,298	48,620	na
Total turnover (£m)‡	-	na	3721.1	5710.5	3611.8	na
Total shrs traded (mil)‡	*854.4	na	941.8	1338.7	938.3	na
Tradepoint turnover (£m)	28.2	28.6	70.1	39.2	31.3	2.8
Tradepoint shrs traded	[illegible]	7,140	14,490	7,083	7,908	660

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	578	Total Highs	298	Total contracts	47,588
Total Falls	715	Total Lows	44	Calls	24,983
Same	1,467			Puts	22,605

May 13 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6012.0	5999.0	+9.0	6055.0	5972.0	20876	154371
Sep		6075.5	+8.0			0	10587
Dec		6180.0	+12.0			0	250

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		5816.0	+8.0			0	6381

■ FTSE 100 INDEX OPTION (LIFFE) (*5963) £10 per full index point

[illegible]								

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]								

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											

FTSE GOLD MINES INDEX

	May 13	% chg on day	May 12	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (30)	1338.14	-1.6	1359.27	1699.33	1.85	-	1910.13	881.23
■ Regional Indices								
Africa (14)	1374.80	-0.9	1382.84	1847.41	2.93	38.46	1894.35	921.76
Australasia (7)	1432.75	-0.2	1435.18	1950.82	2.38	30.30	1823.74	933.63
North America (11)	1174.92	-3.1	1212.80	1534.23	1.06	42.41	1574.15	854.86

FTSE Actuaries Share Indices — The UK Series

[illegible]											

■ Hourly movements

[illegible]											

TRADING VOLUME

■ Major Stocks yesterday.

	Vol. 000's	Closing price	Day's change
[illegible]			

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 13 / Sch)

BELGIUM/LUXEMBOURG (May 13 / Frs.)

CZECH REP (May 13 / Korona)

DENMARK (May 13 / Kr)

FINLAND (May 13 / Mkk)

FRANCE (May 13 / Frs.)

GERMANY (May 13 / Dm.)

GREECE (May 13 / Drachma)

ITALY (May 13 / Lire)

NETHERLANDS (May 13 / Fls.)

NORWAY (May 13 / Kroner)

POLAND (May 13 / Zloty)

PORTUGAL (May 13 / Escudo)

SPAIN (May 13 / Pts.)

SWEDEN (May 13 / Kronor)

SWITZERLAND (May 13 / Frs.)

TURKEY (May 13 / Tk Lira)

PACIFIC

JAPAN (May 13 / Yen)

AUSTRALIA (May 13 / Aust$)

HONG KONG (May 13 / H.K.$)

INDONESIA (May 13 / Rupiah)

MALAYSIA (May 13 / MYR)

NEW ZEALAND (May 13 / NZ $)

SINGAPORE (May 13 / S$)

SOUTH KOREA (May 13 / Won)

TAIWAN (May 13 / TW $)

THAILAND (May 13 / Baht)

AMERICAS

CANADA

TORONTO (May 13 / Can $) 4 pm close

MONTREAL (May 13 / Can $) 4 pm close

MEXICO (May 13 / Peso) 12:30 pm

AFRICA

SOUTH AFRICA (May 13 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 12 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 11 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	206.43	-0.6	187.27	174.64	190.46	218.62	-0.4	3.60	207.56	188.73	174.12	191.70	217.50	243.87	190.26	230.81
Austria (23)	242.41	0.1	219.91	205.08	223.66	[illegible]	0.0	1.47	242.16	220.18	203.14	223.55	223.52	242.41	181.60	192.22
Belgium (29)	334.88	-0.2	303.80	283.30	308.97	302.34	-0.3	2.39	335.46	305.04	281.43	309.84	303.21	335.66	234.33	247.60
Brazil (26)	236.16	-1.8	214.24	199.78	217.89	499.07	-1.8	1.98	240.52	218.70	201.77	222.14	507.23	322.44	184.94	256.48
Canada (120)	248.40	0.2	225.35	210.14	[illegible]	257.59	0.1	[illegible]	247.89	225.40	207.95	228.95	257.24	248.78	199.10	199.89
Denmark (34)	508.64	-1.3	[illegible]	430.30	469.29	467.66	-1.4	[illegible]	[illegible]	468.59	432.31	475.97	474.42	521.81	375.32	375.37
Finland (26)	449.00	-0.5	407.33	379.85	414.26	508.09	-0.6	1.80	[illegible]	410.19	378.43	416.65	511.16	451.12	264.93	284.93
France (79)	318.53	-0.4	288.97	269.47	293.89	297.34	-0.5	1.98	319.93	290.90	268.38	295.48	298.92	319.93	213.42	224.84
Germany (58)	287.12	-0.6	260.47	242.90	264.91	264.91	-0.7	[illegible]	288.96	262.74	242.40	266.88	266.88	290.93	204.89	210.88
Greece (37)	274.27	3.6	248.82	232.03	253.08	606.18	3.5	[illegible]	264.68	240.66	222.03	244.45	585.84	298.79	264.68	–
Hong Kong, China (66)	298.19	-1.8	270.51	252.26	[illegible]	298.88	-1.8	5.36	303.60	276.06	254.69	280.40	302.06	580.03	262.93	495.98
Indonesia (27)	39.79	-1.9	36.10	33.66	36.71	230.89	-1.3	3.06	[illegible]	36.88	34.01	37.45	233.80	254.90	27.67	238.89
Ireland (16)	545.39	-1.4	494.77	461.39	503.20	541.09	-1.7	1.79	553.24	503.04	464.10	510.96	550.43	560.44	336.68	342.98
Italy (54)	169.48	-1.3	[illegible]	143.38	[illegible]	221.55	-1.4	1.27	[illegible]	156.19	144.10	158.65	224.73	[illegible]	86.93	89.48
Japan (480)	93.90	-0.7	85.18	79.44	86.63	79.44	0.1	1.00	94.55	85.97	79.32	87.33	79.32	141.12	88.52	129.28
Malaysia (107)	160.95	-2.5	146.01	136.16	148.50	240.51	-2.1	2.87	165.08	150.10	138.48	152.46	245.68	541.84	113.56	532.52
Mexico (29)	1601.07	-1.1	1452.47	1354.48	1477.21	14864.56	[illegible]	1.58	[illegible]	1471.88	1357.93	1495.04	14981.87	1901.98	1395.63	1404.57
Netherlands (19)	511.49	-1.1	464.02	[illegible]	[illegible]	466.85	-1.2	1.98	[illegible]	470.24	433.83	477.64	[illegible]	521.95	368.75	368.75
New Zealand (14)	69.53	-1.3	63.07	58.82	[illegible]	68.73	-0.7	4.75	70.44	64.05	59.09	65.06	69.25	96.47	69.53	87.52
Norway (38)	344.78	-0.4	[illegible]	291.68	318.11	[illegible]	-0.4	1.80	346.13	314.73	290.36	[illegible]	348.96	374.64	281.62	300.57
Philippines (22)	95.99	1.0	87.08	81.21	88.56	187.76	-0.1	1.11	95.07	86.45	79.76	87.81	187.87	173.10	[illegible]	159.02
Portugal (18)	278.77	-1.3	252.90	235.84	257.21	346.40	-1.6	[illegible]	282.40	256.78	236.90	260.82	351.91	299.39	278.77	–
Singapore (42)	190.98	-2.2	173.26	161.57	176.21	144.56	-1.1	[illegible]	195.26	177.54	163.80	180.34	146.17	401.75	144.01	398.59
South Africa (43)	317.55	[illegible]	288.08	268.65	292.99	[illegible]	-3.3	[illegible]	329.12	299.26	276.09	303.97	[illegible]	364.24	227.66	362.49
Spain (31)	376.37	-1.4	[illegible]	318.40	347.25	429.73	-1.6	1.78	381.81	[illegible]	320.29	352.63	436.51	396.69	236.28	247.22
Sweden (49)	[illegible]	-0.7	551.36	514.16	[illegible]	684.53	-0.9	1.71	612.15	556.60	513.52	565.37	691.05	612.15	439.98	440.99
Switzerland (30)	408.51	-0.8	370.60	345.60	376.91	375.11	-0.7	1.08	410.80	373.52	344.61	379.40	377.82	410.80	284.04	284.04
Thailand (39)	23.49	-2.2	21.31	19.87	21.67	35.32	-1.7	8.55	24.02	21.84	20.15	22.19	35.94	89.09	[illegible]	88.40
United Kingdom (208)	383.51	-0.8	[illegible]	[illegible]	353.84	[illegible]	-1.0	[illegible]	386.60	351.52	324.31	357.05	[illegible]	401.84	293.10	299.49
USA (635)	455.70	0.7	413.41	385.52	420.45	455.70	0.7	1.41	452.36	411.31	379.47	417.79	452.36	462.18	335.79	338.74
Americas (810)	412.77	0.7	374.46	349.20	380.84	348.66	0.7	1.42	[illegible]	372.80	343.94	378.67	346.32	418.95	307.27	309.69
Europe (748)	358.62	-0.8	325.34	303.39	330.88	338.27	-0.9	1.98	361.35	328.57	303.14	[illegible]	341.39	363.50	256.75	259.31
Nordic (149)	532.62	-0.7	483.19	450.59	491.42	529.60	-0.9	[illegible]	536.56	487.88	450.11	495.56	534.48	536.56	380.95	380.95
Pacific Basin (868)	102.78	[illegible]	93.24	86.95	94.83	87.66	-0.1	[illegible]	103.65	94.24	86.95	[illegible]	87.78	158.99	95.32	147.61
Euro-Pacific (1617)	209.43	[illegible]	189.99	177.17	193.23	182.10	-0.7	1.90	[illegible]	191.92	177.06	194.94	183.37	216.04	172.03	194.21
North America (755)	442.57	0.7	401.49	[illegible]	408.33	[illegible]	0.7	1.41	439.42	399.55	368.62	405.84	439.30	448.61	327.60	330.20
Europe Ex. UK (540)	334.32	-0.7	303.29	282.83	308.45	323.25	-0.9	[illegible]	336.80	306.24	282.53	311.06	326.06	336.80	230.16	232.07
Pacific Ex. Japan (388)	184.72	-1.3	[illegible]	[illegible]	[illegible]	188.31	-1.2	4.15	187.23	170.24	157.06	[illegible]	190.52	318.98	161.31	305.06
World Ex. US (1835)	213.43	-0.8	193.62	180.56	196.92	189.54	-0.7	[illegible]	215.11	195.59	180.45	198.67	190.88	220.18	175.30	197.48
World Ex. UK (2262)	282.79	0.1	256.54	239.24	260.91	258.25	0.2	1.50	282.55	[illegible]	237.02	260.95	257.84	287.02	234.24	236.94
World Ex. Japan (1990)	389.44	0.1	353.30	329.46	359.32	382.55	0.0	1.72	389.18	353.87	326.47	359.44	382.48	394.39	300.17	300.34
The World Index (2470)	291.34	[illegible]	264.30	246.47	268.80	265.35	0.0	[illegible]	291.36	264.93	244.42	269.10	266.27	296.57	241.30	242.28

Emerging markets: IFC Investable Indices

Prices supplied by Extel, part of FT Information.

4 pm close May 13

NEW YORK STOCK EXCHANGE PRICES

- A -

1998 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

s-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 12	May 11	May 8	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9161.77	9091.52	9055.15	9192.66 (4/5)	7580.42 (9/1)	9192.66 (4/5/98)	41.22 (8/7/32)
Home Bonds	104.48	104.42	104.60	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3395.04	3408.95	3424.92	3686.02 (16/4)	3194.35 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	282.73	282.12	282.38	291.18 (2/4)	262.86 (9/1)	291.18 (2/4/98)	10.53 (8/7/32)

DJ Ind. Day's high (a) (9231.52) Low (a) (9045.43) (Theoretical)
Day's high 9175.72 (9188.67) Low 9059.88 (9053.46) (Actual)

Standard and Poors	May 12	May 11	May 8	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1115.79	1106.64	1108.14	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1304.35	1294.21	1295.78	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial‡	133.72	132.17	132.36	140.63 (14/4)	110.85 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	578.29	575.27	575.72	588.82 (22/4)	487.47 (9/1)	588.82 (22/4/98)	4.54 (25/4/42)
Amex Comp	743.58	744.03	744.23	753.67 (22/4)	648.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Comp	1880.16	1848.67	1864.37	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	476.13	476.50	479.51	491.41 (21/4)	410.39 (12/1)	491.41 (21/4/98)	123.38 (7/12/88)

RATIOS

	May 8	May 1	Apr 24	Year ago
Dow Jones Ind. Div. Yield	1.56	1.54	[illegible]	1.71

	May 8	Apr 29	Apr 22	Year ago
S & P Ind. Div. yield	1.33	1.31	1.29	1.72
S & P Ind. P/E ratio	30.65	30.29	31.13	23.33

US DATA

MARKET ACTIVITY

Volume (million)	May 12	May 11	May 8
NYSE	[illegible]	[illegible]	[illegible]
Amex	[illegible]	[illegible]	[illegible]
NASDAQ	[illegible]	[illegible]	[illegible]

NYSE TRADING ACTIVITY

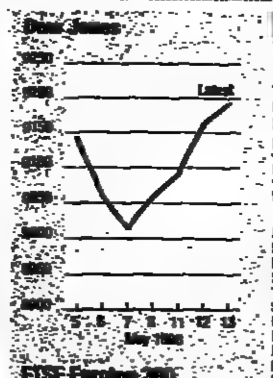
ACTIVE STOCKS

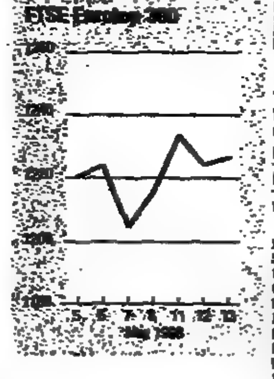
Tuesday	Stocks traded	Close price	Day's change
Compaq	9,650,100	[illegible]	[illegible]
SBC Cm	6,178,200	[illegible]	[illegible]
MicronTech	5,357,600	[illegible]	[illegible]
Cendant	5,261,300	[illegible]	[illegible]
Chrysler	5,094,100	51	[illegible]
WalMart	4,955,700	[illegible]	[illegible]
BellAtl	4,852,700	[illegible]	[illegible]
PhMorr	4,497,300	[illegible]	[illegible]
Travlr	4,209,200	[illegible]	[illegible]
GenMtr	3,500,800	[illegible]	[illegible]

NASDAQ TRADING ACTIVITY

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
3Com	21,280,000	[illegible]	[illegible]
Microsft	18,918,300	[illegible]	[illegible]
DellCmp	15,990,800	[illegible]	+4
Intel	13,077,900	[illegible]	[illegible]
ApplMat	7,724,200	[illegible]	[illegible]
PhySale	6,678,900	[illegible]	[illegible]
WrldCm	6,538,800	[illegible]	[illegible]
CiscoSys	6,033,400	[illegible]	[illegible]
Oracle	5,752,300	[illegible]	[illegible]
AscendCom	5,245,800	[illegible]	[illegible]





JAPAN

	May 13	May 12	May 11	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	[illegible]	15322.48	[illegible]	[illegible]	[illegible]	[illegible]	85.25

TOKYO TRADING ACTIVITY

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Nissan Motor	8,255,000	[illegible]	−21

FRANCE

	May 13	May 12	May 11	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4019.75	3987.33	4017.24	4019.75	2862.54	4019.75	894.61

Day's high 4046.77 Day's low 4007.86

PARIS TRADING ACTIVITY

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Elf Aquitaine	1,062,339	[illegible]	[illegible]
Alcatel	841,318	1241	+16
AGF	717,434	370.1	−7.4

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Labo Dolisos	240.1	+46.2	+23.8
Chargeurs	153.1	−12.9	−7.8
Lectra Sys	41.2	−3.3	−7.4
Esonic	32	−2.5	−7.2

GERMANY

FRANKFURT TRADING ACTIVITY

Volume : 17,075,182

UK

	May 13	May 12	May 11	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5972.9	5958.7	6028.3	6105.80	5088.60	6105.8	986.9

Day's high 6000.2 Day's low 5949.5

LONDON TRADING ACTIVITY

INDEX FUTURES

WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

THE NASDAQ STOCK MARKET

AMEX PRICES

EASDAQ

STOCK MARKETS

Investors steer clear of turmoil-ridden Asia

WORLD OVERVIEW

South-east Asian markets were rattled by the worsening riots and social unrest in Indonesia although the developments were ignored by European and US investors, who focused on the announcement of US economic figures, *writes Emiko Terazono.*

The worsening anti-government riots and reports of mob looting in Indonesia's capital depressed the Jakarta market by 6.6 per cent yesterday. The events dragged most of the region lower, with Hong Kong down 3.8 per cent, Kuala Lumpur 3.7 per cent and Bangkok 2.8 per cent.

Turmoil in Indonesia seems to have come at a delicate time with investors becoming increasingly bearish in Asian markets after a rally in the first quarter.

And while the difference in response among Asian economies to the economic crisis has prompted some analysts to point out the importance of the differentiation of markets within the region, yesterday's events seemed to reveal the contrary. In spite of the active reform programmes of Thailand and Malaysia, Asian markets remain strongly correlated, and investors still regard them as one asset class.

With social unrest depressing the Indonesian rupiah and worries mounting over possible political and economic chaos, most investors are expected to maintain their distance from Asian markets for the moment.

Controversy over India's nuclear tests, meanwhile, depressed Bombay shares by 4 per cent. This is a blow to many fund managers in the Asia-Pacific region, who have regarded India as a short-term cash haven.

According to the most recent Merrill Lynch Gallup survey of international fund managers, buying interest among fund managers in Asia had declined since last month for every equity market except Australia and India.

Most investors yesterday, however, turned their eyes to US economic indicators. Concern over a possible rise in US interest rates has been the focus of trading in Europe and the US over the past few weeks.

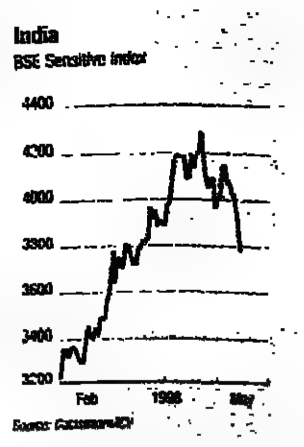
Although on a one-year view, US fund managers surveyed by Merrill Lynch expect the Fed Fund rate to stay at 5.5 per cent investors expecting the Fed's to raise rates outnumber those expecting a cut by almost two to one.

The survey indicates US managers are seeking international equity exposure in continental Europe. Those bullish on European stocks outnumber bears by 46 per cent on a three-month view, while on a year's view, the figure rises to 49 per cent.

EMERGING MARKET FOCUS

Bombay battered by bomb tests

News of India's second batch of nuclear tests in three days sent the country's stock markets into a tailspin yesterday afternoon, with the BSE-30 index finishing 162.37 lower at 3,782.76.



Investors who had held their nerves on Tuesday – when the market fell 77 points in response to the first series of nuclear explosions – turned sharply bearish on fears that the latest test would trigger much tougher sanctions from the US, European Union and Japan.

"The market has really taken it badly," said Sangiv Sanghvi, head equity dealer at HSBC Batlivala and Karani. "Nobody was expecting a second test. People feel that now the world will not look at this as a one-off, which might be pardoned.

"Now not just US but multilateral sanctions are likely," he added.

Foreign investors were more blunt. "They really screwed up this time," said the head of one securities firm in Bombay.

The market has been on an emotional roller-coaster since trading opened on Tuesday, one day after the first explosions. Equities fell sharply at start of trade on Tuesday, but recovered in late trading on patriotic intervention by state-owned institutions.

The market stabilised on Wednesday morning before slumping again on news of the latest tests. Shares were marked down on fears that sanctions would derail India's already fragile economy. Software stocks, overbought and vulnerable to US retaliation, were worst hit.

This week's falls marked the end of the "BJP rally" – which greeted the electoral success of the pro-business BJP nationalist party. From a 52-week low of 3,164 on January 29, the BSE-30 index rose 31 per cent to peak at 4,147 on May 5.

But foreign investors were lukewarm throughout. Net sellers for the last six weeks, their unwillingness to support local buying had already taken the steam out of the rally before this week's nuclear tests.

"This market is already fully valued, and exposed to events elsewhere in Asia," said Fergus Fleming, chief executive of HSBC Batlivala and Karani.

He said it would be "doubly difficult" to persuade investors to buy in now.

Optimists – a beleaguered minority yesterday – said the government's display of jingoism would solidify its coalition, and enable it to announce a strongly reformist budget next month.

Others suggest that India could be heading for a balance of payments crisis if sanctions cause loans and portfolio inflows to dry up at a time when exports are declining.

Everything seems to depend on whether India says it will sign the Comprehensive Test Ban Treaty after all – thus heading off the worst sanctions and and perhaps triggering a rally.

Speculators said there were hints in yesterday's government statement that India might offer real concessions. Investors are praying that it does, and soon.

Krishna Guha

Economic data propel Dow above 9,200

AMERICAS

US shares climbed following the release of positive retail sales and inflation data, which sent the Dow Jones Industrial Average above the 9,200 level, *writes John Labate in New York.*

By lunchtime the Dow had gained 54.55, a rise of 0.6 per cent, to 9,216.32. The broader Standard & Poor's 500 was up 4.69 to 1,120.48. The Nasdaq composite firmed 6.51 to 1,866.67.

The day's economic reports were awaited with some trepidation, coming less than a week ahead of the next Federal Reserve open market committee meeting. But when the data came on line, stock and bond markets moved higher. By early afternoon, the benchmark long bond was up ¼ at 102 3/32, yielding 5.958 per cent.

The key figure was retail sales, which rose 0.5 per cent in April. "I think the market was braced for a stronger number, as much as a 1 per cent gain," said Bill Meehan, chief market analyst at Cantor Fitzgerald in Connecticut.

The producer price index of core inflation rose 0.2 per cent in April, a bit stronger than expected.

Among Dow constituents, Hewlett-Packard rose $1 1/16 to $61¾ after the computer maker announced a product launch with software leader Microsoft. General Motors rose $2⅛ to $75⅝ and Wal-Mart added $1⅛ to $53⅞ after a recent earnings report.

Banking stocks were mixed, with major money centre banks falling back. Chase Manhattan fell $1¾ to $139⅛. Airline stocks were also mixed. US Airways gained $1 3/16 to $66 11/16.

Among technology shares, *Microsoft gained $1⅞ to $87 1/16* and Sun Microsystems *gained $1¼ to $43 5/16*. Bay Networks shot up $3⅜ or more than 15 per cent to $27 11/16 on speculation that it could be a takeover candidate. Rival Cabletron also advanced, up $¾ to $14 3/16. In the semiconductor sector, Motorola gained $3⅛ to $59 3/16.

The Russell 2000 index of small-cap shares rose 1.03 to 477.16.

TORONTO rattled lower on currency worries after Bank of Canada suggested that interest rates would stay put for the next six months. Ignoring the early upturn on Wall Street, the 300 composite index was off 22.70 at 7,695 at the noon count.

The Canadian dollar slipped on foreign exchanges as hopes for interest rate-tightening were effectively quashed by the central bank in its latest half-year monetary policy report. Bonds weakened and there was an immediate knock-on effect among equities.

The interest rate-sensitive banking sector led the way down. Royal Bank of Canada fell 55 cents to C$85.80 and Canadian Imperial came off 20 cents to C$50.75. Bank of Nova Scotia lost 50 cents to C$38.70.

Golds followed the weaker bullion price. Barrick shed 20 cents to C$31. In industrials, Alcan Aluminium dipped 95 cents to C$48.35.

Seagram, widely seen as a potential bidder for Dutch music giant PolyGram, added 40 cents to C$61.40. A strong results statement sent Celanese Canada ahead 90 cents to C$27.40.

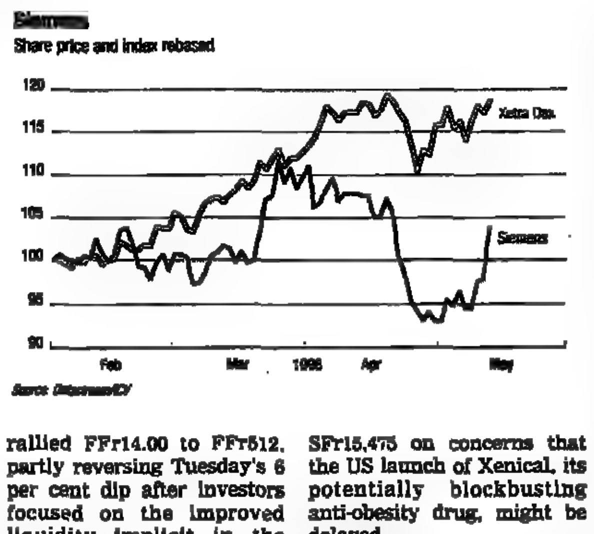
Among second-liners, Newfoundland Capital was actively traded with 2.3m shares in the communications group changing hands in the morning session. The stock added 25 cents to C$9.25.

Xetra Dax rises on Wall St surge

EUROPE

Investors took advantage of the Dow's opening surge to send the Xetra Dax index above the 5,400-point level in **FRANKFURT**, although the measure turned back in late *trading to close at 5,371.99*, still 64.17 higher on the day.

Siemens, a notable underperformer in recent weeks, jumped 4.5 per cent after an upgrade by Donaldson Lufkin Jenrette prompted demand from US and UK investors. The share finished DM5 better at DM117, off a high of DM119.70, after the US investment house also raised its 12-month share price target.



Puma, the sportswear manufacturer, was another winner, rising DM4.40 to *DM46.50 in spite of its warning* that the Asian financial crises were hurting its licensing business and had contributed to a sharp fall in first-quatrer pre-tax profits.

Henkel closed DM3.45 higher at DM162.15, after *Morgan Stanley upgraded its* share price target from DM165 to DM182.

Car stocks were mixed. BMW recovered early losses to close DM64.50 higher at DM2,074.50 after Tuesday's statement that it did not intend to make a new offer for Vickers' Rolls-Royce Motor Cars.

VW was hit by profit-taking, falling DM27 to DM1,420 having turned back from a day's best of DM1,472. The share was initially marked up on comments by the Vickers chairman that the group was likely to win the race for Rolls-Royce.

PARIS ended with a flourish, bouncing off a session-low of 4,007.66 in the dying moments to close with the CAC-40 index 32.43 higher at 4,019,76.

Total and Elf Aquitaine continued to drive higher, supported by an upbeat annual meeting at Total and gains for Brent Blend, the benchmark for global oil prices, which clawed back above $15 a barrel. Total added FFr22.00 at FFr786 and Elf FFr24.00 at FFr849.

Usinor pushed ahead on better-than-expected first-quarter sales, adding FFr1.10 to FFr100.8. SGS Thomson rallied FFr14.00 to FFr512, partly reversing Tuesday's 6 per cent dip after investors focused on the improved liquidity implicit in the group's $1.6bn global share issue.

Financials remained nervous on interest rate worries and negative broker comment. J.P. Morgan initiated coverage of BNP, Crédit Lyonnais and Société Générale with "underperformer" *ratings. BNP fell FFr16.00 to* FFr5320 and SocGen FFr43.00 to FFr1,282.

AMSTERDAM pushed higher. Retailer Ahold, initiated by Salomon Smith Barney with a bullish "outperformer" rating, jumped Fl 2.00 to Fl 64.40 and Fortis Amev climbed further, adding Fl 3.20 to Fl 128.40 after the board of Belgian's Generale Bank dropped merger objections.

Nedlloyd's annual meeting pleased investors, sending the shipping leader up 10 cents to Fl 47.50 after a high of Fl 49.50. Royal Dutch, up Fl 1.00 at Fl 115.40, was said to be tracking the better tone for international oil prices.

PolyGram, where a full-scale takeover bid is widely expected from Seagram of Canada, improved Fl 2.80 to Fl 105.70. The AEX index ended 7.23 higher at 1,173.95.

ZURICH was pulled down by losses in a number of market heavyweights and caution ahead of tomorrow's options and futures expiry. The SMI index fell 44.5 to 7,582.8.

Roche certificates reversed an early 2 per cent gain and closed SFr230 down at SFr15,475 on concerns that the US launch of Xenical, its potentially blockbusting anti-obesity drug, might be delayed.

Novartis, temporarily boosted by a company statement that the European Commission had approved Exelon, its Alzheimer's drug, for release in all EU countries, also turned lower, losing SFr34 at SFr2,480.

Financials were hurt by renewed worries about the outlook for interest rates. UBS lost SFr31 to SFr2,572 while SBC, its merger partner, gave up SFr4 to SFr553. Zurich Insurance lost SFr102 to SFr906.

MILAN took a tumble late in the day as Wall Street pared its gains and the real-time Mibtel index finished 249 lower at 24,095.

Banks remained at the centre of attention. San Paulo climbed L672 top L29,880 and IMI was L841 ahead at L33,446 after an upbeat analysts' meeting on Tuesday.

Banca di Roma and BCI Banca Popolare di Brescia, suspended at one stage for excessive gains, shot up L2,329 to L36,961 in response to upbeat analysts' reports. San Paulo di Brescia, its merger partner, added L801 to L11,177.

A L102 rise in Fiat to L7,998 was attributed to renewed talks of a search for a partner.

MADRID fell back after market heavyweight Telefónica, a strong market in the run-up to yesterday's results statement, attracted profit-taking. Telefónica shed Pta40 at Pta6,750 and the general index gave up 6.08 at 852.04.

Amper rose Pta165 or 4.4 per cent to Pta3,940 on talk of stake-building by Telefónica, which already owns 15 per cent of the telecoms equipment group.

COPENHAGEN moved lower as a direct result of disappointing figures from bio-leader and market heavyweight Novo Nordisk.

The shares fell DKr49.00 to DKr1,066 and at the close the KFX index was off 2.69 or 1.1 per cent at 234.24.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall.

São Paulo regains losses

SAO PAULO rallied modestly in early trading to partly reverse the previous day's 1.7 per cent decline. Blue chips mostly made headway in spite of uncertainty before the next round in the parliamentary vote on the government's reform programme.

Telebrás added 0.6 per cent to R$33.10 and Eletrobrás gained 1.6 per cent to R$43.70. Leading mining stock Cia Vale Rio de Doce gained 1.5 per cent to R$26.90. At the midsession count, the Bovespa index was up 34 at 10,832.

MEXICO CITY fell again. Volume was minimal as economic concerns kept investors on the sidelines. "The talk is all about the budget and the prospect of spending cuts given the parlous state of oil prices," said one broker. At midsession, the IPC index was off 49.58 or 1 per cent at 4,762.56.

Johannesburg edges higher

SOUTH AFRICA

Shares in Johannesburg rallied modestly with industrials and financials offsetting a shakeout for golds. The all-share index ended up 13.4 at 8,029.4.

Industrials added 81.5 to 9,769.7 while financials improved 75.0 to 13,525.6.

South African Breweries, down R10 on Tuesday, recovered R7.20 to R158.20. Anglo American slipped R9 to R267.

Golds had a bad day, with Driefontein falling R1.90 to R33 and the golds index giving up 31.0 or 3 per cent at 1,031.2.

Jakarta dips on Suharto protests

ASIA PACIFIC

Further protests against President Suharto triggered heavy selling across the board, sending **JAKARTA** *6.6 per cent lower. The composite* index fell 28.47 to 402.06.

Student anti-government action, which left one person dead, escalated in the capital and tear-gas filled the central business district at times. Shares in companies with links to the Suharto family came under heavy pressure.

Among losing blue chips, Astra fell Rp275 to Rp975 and Telkom Rp100 to Rp3,125. Bimantara, the conglomerate controlled by President Suharto's son, tumbled Rp100 or 16 per cent to Rp500.

TOKYO rallied in late trading after news emerged of an alliance between Industrial Bank of Japan and Nomura Securities, *writes Gillian Tett in Tokyo.*

The key Nikkei 225 average closed 21.33 ahead at its high for the day of 15,343.81. During the day it had mostly traded in negative territory, falling as low as 15,162.89 at one stage The Topix index of all first section stocks rose 1.7 to 1,206.56, while Nikkei June futures closed 70 higher at 15,330. The second section fell 1.72 to 1,298.25. Turnover was an estimated 370m, slightly higher than the previous day's 350m shares.

CHANGES ON THE DAY

	% change
Jakarta	-6.6
Singapore	-4.9
Hong Kong	-3.8
Kuala Lumpur	-3.7
Bangkok	-2.8
Bombay	-2.6
Manila	-2.3
Seoul	+1.3

The main reason for the late rally was a wave of excitement about the IBJ and Nomura alliance. Though the details did not emerge until later in the evening, the news about the link reached the markets a few minutes before they closed. It immediately pushed IBJ's share price up Y26 to Y880 while Nomura rose Y65 to Y1,600. The rally was triggered by hopes that the tie-up could create one of Japan's more formidable financial groups. But it also generated speculation that a wave of similar alliances may now be emerging between other banks and *securities houses as a result* of Big Bang deregulation.

The day's most heavily traded stock was Nissan Diesel Motor, which fell Y27 to Y263. This followed a dramatic surge in the group's share price after reports that Daimler-Benz, the German group, hoped to take a stake in the company.

SINGAPORE rebounded from its low for the day, but still finished 4.9 per cent lower. After opening at a high of 1,399.17, the Straits Times Industrial index plunged to a low of 1,303.72 in late afternoon trade as funds liquidated index-linked stocks. The index finished 68.07 down at 1,331.98.

Singapore Press Holdings tumbled S$1.50 to a low of S$14.10 on reports that newspaper job advertisements fell for the sixth straight month in April, down 55 per cent on the year.

SPH shares later picked up to close at S$14.40.

HONG KONG dropped 3.8 per cent as the escalating violence in Indonesia, and rising interbank rates at home, depressed the equity market.

The Hang Seng index *dropped 372.22 to 9,469.29, its* biggest points decline since March 5.

Analysts noted that local interbank rates pushed higher in spite of an overnight denial by the HK monetary authority of rumours *that it had instructed banks* to limit quotes on HK dollar forwards.

Rate-sensitive property stocks were among the hardest hit issues. SHK Properties fell HK$2.50 to HK$39.70 and Cheung Kong tumbled *HK$2.60 to HK$45.10.*

KUALA LUMPUR gave up 20.84 or 3.7 per cent at 548.33 on the composite index. Most of the selling was said to be futures-inspired with the local May equity futures contract ending at a 4 per cent discount to the cash market. Telekom Malaysia lost 85 cents to M$9.55.

Power utility Tenaga was the day's most active stock, losing 35 cents to M$5.95 ahead of tomorrow's interim results.

PENSION FUND INVESTMENT

As pay-as-you-go systems crumble, retirement savings are seen as a way out of the dilemma facing governments. **Barry Riley** reports

Nimble operators defy global giants

Asset management has become one of the world's fastest-growing industries, and retirement savings are providing one of the most important driving forces. The potential for future development is drawing a brave handful of pension fund managers out into the worldwide market place, hard on the heels of the globalising bankers and securities organisations.

Is big beautiful in this context? "We expect the middle tier to get squeezed as industry giants outmuscle the group," suggested a report from Goldman Sachs's investment management industry group last month. "Global opportunities are extraordinary, but are only in reach of the largest companies," it insisted. The report, entitled *Asset Management in the 21st Century*, noted the huge potential for growth in Europe, where pension fund assets are less than a third of those in the United States.

Goldman Sachs, with its large and hungry corporate finance division, has a vested interest in promoting megamergers. But while a few global super groups are indeed taking shape, giantism is far from being the only valid business model. Indeed, many people argue that nationalism will remain for many years the dominant force in pensions, a field that is dominated by narrow domestic considerations of taxation and regulation.

Nevertheless, many countries around the globe are moving cautiously in the direction of pensions funding. The old pay-as-you-go systems are crumbling under the pressure of ageing populations: now that social security contribution levels have generally reached the highest tolerable levels – especially in Europe – the pensions promises are having to be broken.

Funding offers a possible way out. Savings can be accumulated and invested today to finance the payment of pensions tomorrow. Europeans are suspicious, but the concept is being accepted more readily in less developed countries, following the precedent of Chile in the 1980s. In territories ranging from Mexico to Hong Kong and Australia compulsory funded schemes have been established. In the United States, too, where massive savings have already been accumulated in occupational and personal pension plans, there is an active lobby to extend stock-market-based funding to social security. If contributions can be invested to achieve historical returns the future benefits will be much greater than can be achieved either through pay-as-you-go or through partial funding with government securities.

Marshall Carter, chairman and chief executive officer of State Street Corporation, believes that a restructuring will happen within five years. It would amount, he claims, to "a major strengthening of social security". And it would serve to boost the very low national savings rate in the US.

The positive outlook for funding has encouraged a wave of international consolidation of fund managers, led by the Americans and the Swiss. Last winter's $5bn acquisition of the UK's biggest pension fund manager, Mercury Asset Management, by Merrill Lynch was said to be specifically aimed at exploiting the potential for growth in Continental Europe.

The recent merger of UBS and SBC into United Bank of Switzerland has created the world's biggest asset management grouping, at more than $900bn. Zurich Group, Axa and Barclays Global Investors have also trodden the acquisition trail. Several US giants such as Fidelity, Capital Group and State Street Global Advisors, however, have preferred to expand through organic growth.

The UK, despite its historically powerful position in global asset management, has been on the receiving end of much of this corporate activity. Kleinwort Benson Investment Management paid the price last year: it lost its global role (and its name) when it was squeezed between the American and German elements within Dresdner RCM Global Investors.

But how much reality is there in this dream of global management? There is certainly a demand for global investment skills – but is there really any advantage for companies with investment operations in many countries? Often the biggest groups – such as axa, say – really amount to a collection of ring-fenced national asset pools.

Mercury's sell-out followed its long-time failure to break into the US and build a global business on its own. A remaining global contender in London, however, is the Prudential Corporation subsidiary Prudential Portfolio Managers which runs around $200bn in various countries.

"We are operating as an integrated global firm now," insists Rodney Dennis, PPM's managing director. The Pru has developed an equity capability at its US offshoot Jackson National Life. But it has gaps in Continental Europe, and a void in Japan.

However, Phillips & Drew Fund Management, the third biggest UK pension fund manager, which for years was a stand-alone subsidiary of UBS, will continue to be separately managed now that it comes under the control of Brinson, the Chicago-based manager formerly owned by SBC. "There is more value to be retained by keeping the business separate," insists Paul Meredith, PDFM's chairman. "We asked ourselves the question: what's best for the client?"

Meanwhile, there are plenty of vigorous smaller fund management organisations in Europe which contest the idea that clumsy global giants will dominate their business. The Swiss private bank Lombard-Odier, for example, regards itself as a "nimble mid-sized player". According to Ronald Armist, managing director of the international office in London, Lombard-Odier "has the ability to vote with its feet rather than get stuck with a big percentage stake".

The institutional framework of pensions is changing, too. In the past the big business has either been in large, defined benefit corporate schemes, or in pooled schemes run through insurance companies. The US (and to some extent the UK) have, however, seen an important shift towards personalised plans based on mutual funds. This trend has been spearheaded by the 401(k) employer-sponsored plans which have been so popular in the US.

Internationally, though, the very latest shift seems to be towards big, centralised pensions providers which are given special government licences – a concept first developed in Chile. The Labour government in the UK, for instance, is developing proposals for "stakeholder" pensions which will have to comply with rigid rules on structure, costs and investment risks.

This appears to be playing into the hands of the index fund managers which can deliver standardised products at low cost. And because the indices have been so buoyant such products have been performing well and appear attractive – at least until the next stock market crash.

In the end, the success of the big global managers will depend upon their ability to find and exploit economies of scale. The use of technology will be a crucial part of this, and index managers have the most obvious scope for making sheer size work in their favour. But even they will struggle if each national market requires the separate development of highly specialised and dedicated systems and products.

Have the Americans miscalculated in thinking that the world will become a single market for financial products, just like the United States? They can certainly see new opportunities opening in previously closed markets such as Japan. But fund managers outside the US are generally taking a more cautious line.

This applies to individuals, anyway. The leading pension consultants Watson Wyatt recently held a London seminar for investment managers and polled them on whether the organisations represented had global aspirations. To tempt them, Watson Wyatt floated its projection that the global savings market would expand from $22.2bn in 1997 to $40.8bn in 2001 – the dominant feature being a doubling of pension fund inflows.

Some 43 per cent of managers wanted to be truly global. But only 34 per cent of individuals present wished to be part of global organisations, and as big a proportion said they would rather work in boutiques. The persuaders at Goldman Sachs, it seems, still have some work to do.

Some of the world's biggest asset management groups

	Funds managed ($bn)
UBS [1]	[illegible]
Fidelity	640
Axa	[illegible]
Barclays Global Investors	[illegible]
Merrill Lynch [2]	[illegible]
State Street Global Advisors	[illegible]
Capital Group	[illegible]
Zurich	[illegible]
Amvescap [3]	[illegible]
J P Morgan	[illegible]

[illegible]
Source: Companies

UK MANAGERS • by Barry Riley

Second-liners take on the big boys

Industry leaders have to repair their battered records as rivals gather

Old ones, new ones, neglected ones: suddenly a whole group of second-line pension fund managers is competitive with the formerly dominant market leaders, as Mercury Asset Management, PDFM and Gartmore struggle to hold on to their client bases.

Although a high degree of concentration within the pension fund management business is nothing new (and the leaders have changed over the years) the market share of the top managers has attained extreme levels in recent years. The consultants who control the manager selection process became more and more uneasy at the thought that the top few firms might hit a crisis.

At the end of 1997 the share of the aggregate funds in the Top 25 table controlled by the leading four active managers – the three already mentioned, plus Schroder – hit 57 per cent, slightly above the 56 per cent of the year before. Including the dominant passive manager, Barclays Global Investors, the share of the top five has reached 66 per cent.

But the trend towards concentration has almost certainly now peaked. Not just one but three of the top four have hit performance trouble. Meanwhile, Morgan Grenfell, which was the great hope of the consultants in seeking diversification of manager risks, has been stalled by its internal management scandals of late 1996, when irregularities were discovered in the unit trust division, although its investment performance for pension fund clients continues to be good.

The keenness of some of the consultants to promote new managers was shown in March when SocGen Asset Management won a £100m UK equity mandate from the Devonport Royal Dockyard Pension Scheme, after a "beauty contest" arranged by consultants William M. Mercer.

SocGen is a start-up backed by the French bank Société Générale and with a top management mainly consisting of disaffected Morgan Grenfell and Mercury Asset Management executives led by the controversial Mrs Nicola Horlick. Its success seemed to defy all the industry assumptions that a solid track record is essential to win pension fund business.

Mercer's Andrew Dyson explains: "When we are rating managers we are looking at the forward prospects. You might see trustees dedicate a small proportion of the assets to what might seem to be a more speculative choice. Our job is to keep searching for opportunities and present them to clients."

Most consultants are now promoting the idea of multi-manager specialist structures, perhaps including index-tracking as well as actively-managed funds, rather than the traditional use of one discretionary balanced manager (possible two or three for the biggest funds) which clients have been attracted to in the past. There is controversy, however, about whether the consultants are promoting a troublesome solution which will boost their own prospects for future advisory fee income.

What went wrong last year for the top managers? There is no simple answer, though in essence they seem to have been so busy tracking each other that they lost touch with some admittedly strange shifts in the equity markets. PDFM, in particular, went off on a limb with an extreme investment strategy, masterminded by its notoriously bearish investment director Tony Dye. Yet Gartmore's figures were actually worse, and it sits uncomfortably at the very bottom of the five-year performance table.

Mercury ran into big trouble with its pooled fund, its only shop window given that it refuses to publish "house" median performance numbers. The pooled fund returned only 12 per cent in 1997, against a pooled fund industry median of 16.6 per cent. The problems also affected its Mercury Select team which runs the biggest balanced funds, and clients such as Sainsbury have been vociferously critical.

PDFM, which is shortly to change its name back to Phillips & Drew, has the advantage that many of its clients are also bearish, and anyway are used to its distinctive value-based style. It has lost few clients so far. "We are consistent, whereas a lot of people have thrown the towel in," says Paul Yates, marketing director.

A general problem is that active London managers have traditionally focused on finding value and growth among mid-range stocks, and were caught by surprise when the biggest blue chips raced ahead in 1997. They often performed more in line with the FTSE 250 Index, which returned 10.2 per cent, than with the FTSE 100 Index's total return of 28.7 per cent.

"At the end of the day you stick to the fundamentals," says David Watts, Gartmore's investment chief. "You don't change your strategy just because of a size effect." However, Gartmore has been losing clients and it is now offering a core index/active specialist package as an alternative to the standard balanced strategy.

Schroder, typically, has managed to steer clear of the problems of the other big managers, and has maintained its just-above-median performance level. It picked up a lot of business last year, and has decisively overtaken PDFM to reach second place in the funds managed list.

The year's other big winner was Barclays Global Investors, the leader in index funds. With the active managers trailing the indices so badly both in the UK and overseas, and the consultants recommending core/specialist structures, BGI is set to put on a great deal more new business in 1998.

Who else will gain from the travails of the Big Five? One group to watch is the Americans, with both Fidelity and JP Morgan rising rapidly up the funds managed table, and showing excellent investment performance. Bull markets tend to suit the confident style of US managers. They also tend to use more complex, process-driven investment techniques in which risks are controlled more precisely against sectors and stock size categories. This stood them in good stead in 1997's liquidity-driven markets when the very biggest stocks contributed so much of the overall returns.

Other US groups are planning an assault, too. Goldman Sachs Asset Management is launching its first marketing exercise in Europe, believing that the pension fund sector is due for a shake-up. Capital Group, of Los Angeles, has already picked up a lot of global equity mandates, at the expense of UK managers who have so badly misjudged the relative attractions of the US and Asian stock markets. State Street is a growing force in the UK in index funds and quantitative strategies.

Then there are the smaller domestic managers, many of which have suffered from periods of erratic performance in the past, but are now intending to take advantage of the recent problems of the market leaders. CU Morley claims the best recent performance figures, albeit on a slender client base.

Among the better-established pension fund managers Baillie Gifford, which is Scotland's flagship, has benefited from a reorganisation a couple of years ago. Its stock selection has been good, and it made a decision to be less bearish of the US than the consensus. Newton has similarly pulled its performance round after a bad patch, though it may find it hard to win significant new business for the time being.

Henderson Investors has also enjoyed a revival. It had some of the best investment returns in 1997, and the merger into Australian Mutual Provident may increase its credibility, through the addition of Ampam's successful bonds specialisation. "We are confident that through 1998 we will be winning large amounts of new business," says Malcolm Callaghan, Henderson's UK business development director.

Where the balanced fund returns are still not very good, as at Fleming or Prudential Portfolio Management, a focus on the growing defined contribution sector may help. In defined contribution schemes (DC) the household names have an advantage. "The brand is critical. It will be an absolute priority for us," says Rodney Dennis, managing director of PPM.

The trend towards specialist mandates will also offer opportunities for broadly-based managers when the balanced product is uncompetitive. "We will compete in each and every one of the specialist categories," says Mr Dennis.

Another famous old name worth watching is Hill Samuel Asset Management, once upon a time MAM's closest rival when the latter was called Warburg.

"Balanced management remains very attractive for clients," says Peter Baxter, HSAM's pensions chief, "but the competitors took huge risks against the index. This year the index fund managers are our main competitors at beauty parades."

Foreign & Colonial bought its way into the occupational pensions business by acquiring the old electricity industry management company. F&C may find it hard to retain all these electricity industry mandates for long, but its recent investment performance has been good.

So the competitors are gathering. Now the industry leaders have to repair their battered performance records. The cluster of familiar names at the top of the funds managed table may begin to change.

Top 25 segregated pension fund managers (at December 31,1997)

	Value of segregated funds			No of individual funds		Total funds managed		
	1997 £m	1996 £m	% chge	1997	1996	1997 £m	1996 £m	% chge
Mercury Asset Management	65,780	54,171	21.4	1420	1287	101,500	86,500	17.3
Schroder Investment Management	54,200	43,200	25.5	364	323	106,000	87,000	22.0
PDFM	50,192	48,048	4.5	357	377	55,940	51,622	8.2
Barclays Global Investors	34,075	27,293	24.8	420	391	295,237	225,770	30.8
Gartmore Investment Management	30,999	30,117	2.9	1083	1046	46,175	43,036	7.3
Morgan Grenfell Asset Management	17,959	16,254	10.5	181	172	87,548	68,428	28.2
Foreign & Colonial Institutional	17,413	15,321	13.7	34	43	28,192	26,056	8.2
Hill Samuel Asset Management	11,709	10,960	6.8	40	40	33,500	30,600	9.5
Prudential Portfolio Managers	11,288	9,544	18.3	51	44	118,000	90,700	30.1
Fleming Investment Management	7,832	9,118	-14.1	75	87	60,923	58,002	5.0
Baillie Gifford	6,583	6,492	1.4	88	86	13,257	11,942	10.8
HSBC Asset Management	6,035	5,285	14.2	229	211	15,848	13,424	18.0
Baring Asset Management	4,738	5,674	-16.5	58	71	21,854	23,619	-7.5
M & G Investment Management	4,550	4,082	11.5	36	37	17,440	15,719	11.0
Newton Investment Management	4,080	4,483	-9.0	48	50	10,700	10,200	4.9
Fidelity Pensions Management	3,970	2,218	79.0	25	17	388,000	304,000	27.6
Jupiter Asset Management	3,884	3,279	18.5	24	20	6,787	5,280	28.5
J P Morgan Investment Management	3,262	2,220	46.7	36	25	155,855	121,900	27.8
Henderson Investors	2,476	2,172	14.0	45	46	14,228	12,526	13.6
Clerical Medical Investment Group	2,452	2,354	4.2	35	36	18,061	16,198	11.5
Cazenove Fund Management	2,427	2,335	3.9	63	68	9,586	8,386	14.3
Legal & General Investment Management	2,305	2,314	-0.4	865	765	57,264	43,443	31.8
CU Morley	2,230	1,300	71.6	10	9	17,000	15,000	13.3
Dresdner RCM Global Investors*	2,124	1,901	11.7	64	57	14,800	13,600	8.8
Invesco	1,841	1,747	5.4	37	37	116,000	55,900	107.5
Totals	354,487	311,880	13.7	5,740	5,180	1,811,146	1,441,745	25.6

*Dresdner RCM Global Investors is the new name of [illegible]

Biggest ten pooled funds

	£bn
1 Mercury MFS	4.8
2 Scottish Equitable "S"	3.9
3 Scottish Widows	3.6
4 Schroders	2.8
5 Prudential	2.0
6 Britannia	1.8
7 Morgan Grenfell	1.2
8 PDFM	1.1
9 Clerical Medical	1.1
10 Gartmore Long Term	1.0

Source: CAPS [illegible]

Performance of segregated funds to end 1997

Pension Fund Managers	over 5 years	over 1 year
CU Morley	18.8	17.5
Fidelity Pensions Management	16.7	16.5
J P Morgan Investment Management	16.7	19.4
Dresdner RCM Global Investors	15.0	20.2
Schroder Investment Management	14.4	18.8
Hill Samuel Investment Management	14.3	18.1
HSBC Asset Management	14.3	18.1
Henderson Investors	14.2	19.3
Clerical Medical Investment Group	14.2	18.3
Foreign & Colonial Institutional	14.1	13.2
M & G Investment Management	13.8	14.3
CAPS Median	13.7	16.5
Baillie Gifford	13.7	18.8
Jupiter Asset Management	13.7	14.8
Newton Investment Management	13.6	20.7
Cazenove	13.6	14.2
Invesco	13.4	18.9
Fleming Investment Management	13.5	15.2
PDFM	12.9	15.2
Rothschild Asset Management	13.3	18.5
Prudential Portfolio Managers	13.2	18.0
Baring Asset Management	12.8	13.5
Gartmore Investment Management	12.4	12.2

[illegible]

Best performing pooled funds in 1997

	%
1 Fuji	27.8
2 Scottish Equitable Global	25.6
3 Newton Intrepid	25.4
4 J. Rothschild (SJP)	25.2
5 MCAM EUT	25.2
6 General	25.3
7 Tilney Balanced	25.1
8 Colonial	19.9
9 Union Bank	19.3
10 Baillie Gifford	18.2
Caps Median	16.6

Source: CAPS

UK DEFINED CONTRIBUTION SCHEMES • by Jane Martinson

Contenders line up

The race is on for a prize which could be worth £70bn over the next five years

Few participants lining up for the horse race that is the UK's defined contribution market would dispute that the prize will be worth winning. But even fewer appear to agree what the shape of the course is and what type of animal will triumph.

The prize is a share in a product that is growing at a faster rate than the defined benefit schemes which form the bulk of a UK pension fund market of about £650bn.

Watson Wyatt, the UK's largest pension fund consultancy, estimates that the defined contribution market will grow from £30bn to £70bn over the next five years or from 5 per cent of the total market to about 8 per cent. Greenwich Associates, the US-based consultancy, forecasts an annual growth rate of 23 per cent until total assets under management reach $US145bn in 2002. Growth rates for defined benefit schemes are predicted to be much slower.

The reasons given for the growth of defined contribution are manifold. The most compelling is the fact that the schemes, which do not guarantee a final payout and where individuals bear the investment risk, offer companies the chance to reduce pension costs and make them more certain.

They also remove some of the regulatory burdens which have been introduced in recent years – such as the minimum funding requirement which sets tight matching limits for eventual payouts under the defined benefit system.

Other reasons depend on socio-economic factors such as the growth of an increasingly mobile and flexible workforce which has not been well served by traditional schemes.

Supporters also point to the experience of the US market, where defined contribution assets are forecast to overtake those from defined benefit schemes in the near future, and where individuals have shown a willingness to take responsibility for their own retirement as it becomes increasingly obvious that the government will fail to provide an adequate income.

Against these arguments, however, are the very real fears about increased risk for the participants. While pensions lawyers have argued that the legal responsibilities for trustees who carry out due diligence is clear, few rule out the possibility of future action by an employee blaming a company for a poorly performing pension fund.

The need for greater education and communication is a serious one for an occupational pension fund industry used to dealing with a handful of trustees and not the masses they actually serve.

Roger Urwin, the head of investment practice at Watson Wyatt, warns that a combination of lower contributions from employers and more conservative investments by employees scared of taking on greater responsibility could lead to a "double whammy" on future pensioners if the fledgling market is not handled well.

On top of these problems is the fact that many pension fund managers have grown up in a paternalistic environment and remember the disaster of low-quality defined contribution schemes in the 1970s and 1980s.

Given the scope of the argument it is little wonder that defined contribution pension schemes have been called a revolution for the pension fund industry and a scandal waiting to happen.

But while the debate rages on those making all the running are the investment managers themselves. A study by Watson Wyatt earlier this year found that 68 per cent of investment managers had focused their new business strategies on defined contribution schemes. Anecdotal evidence suggests the percentage is closer to 100.

The race to date has been dominated by the largest defined benefit managers. They enjoy the advantage of the fact that the same trustees who pick traditional pension fund managers are choosing their defined contribution counterparts and the same consultants are advising them. Mercury Asset Management, the UK's leading traditional pension fund manager, is also credited with being one of the first to spot the new opportunities.

However, rivals expect this dominance to erode in a highly fragmented market. In their favour is the disappointing performance of the largest managers over the past few years.

Philip Beale, marketing director of Robert Fleming Asset Management, says that this performance means that "the market is now more open than ever".

Among fund management groups flexing their muscles in the fledgling market are US groups touting their experience in the home market, retail groups with the advantage of their attraction to the end user and insurers who dominated the UK's earlier experience of defined contribution plans.

The early experience of Fidelity, the world's largest manager of defined contribution schemes, in the UK market disproves the view that it will simply follow the example of the US.

The US group had a hard time entering the market partly because of its backing for the "bundled" – or full service – mandates common in the US. While Fidelity argues that its greater expertise in this area is a central selling point it failed to find favour with the UK industry. Cynics point to the influence of investment consultants who run their own administration services.

Fidelity, which now manages £250m for 120 schemes, has since benefited from offering investment-only schemes. Other US groups such as JP Morgan have also made an aggressive move into the defined contribution market.

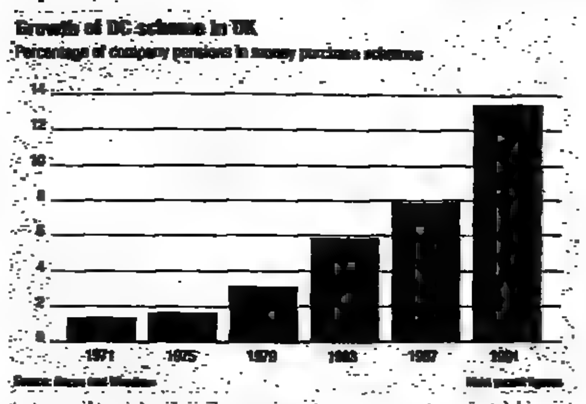
Fund managers with a strong following in the retail market have tended to market themselves on their recognition to employees naturally worried about the pension fund process. M&G, the UK's oldest unit trust provider, recently won the mandate to manage the large new scheme for GUS, the retail group.

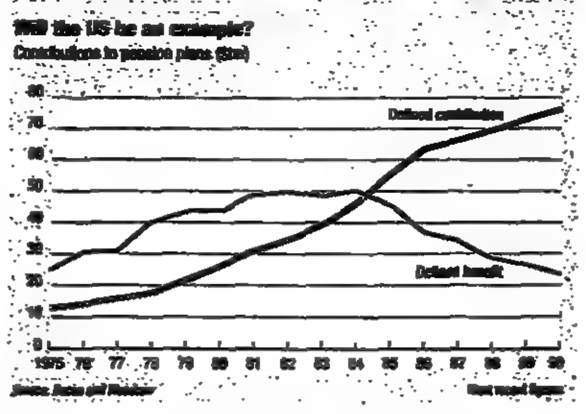
The last group of competitors to start shaping up – insurers – have taken a relatively low profile to date. Rivals blame the continuing trauma over personal pension mis-selling.

The race to win the defined contribution cup also includes a sideshow called the stakeholder pension. With the government's plans still so unclear the main contenders are not yet paying the issue their full attention.

But the likely criteria – low volatility, low cost and good communication – link the plans closely to defined contributions.

There are still many uncertainties over the eventual shape and importance of the defined contribution market in the UK. But, if the aggressive marketing of investment managers and the weight of economic evidence is to be believed, the pension fund industry could look a different place not many decades into the next century.





UK PENSION FUNDS' PERFORMANCE • by Barry Riley

Wall Street misread

Last year's huge underweighting is being blamed on strategists' poor judgment

Who exactly was to blame for last year's investment performance disappointments in British pension funds? The shocking shortfall against the equity indices was most obvious in the figures published by Caps, which monitors many of the smaller funds more aggressively run by external managers.

The overseas equity return lagged the World ex UK Index total return of 19 per cent by an unbelievable 12.9 percentage points. The shortfall of 1.6 percentage points in British equities – at 22 against 23.6 per cent on the All-Share Index – was less spectacular, but still notable.

The underperformance appears only slightly less substantial on the basis of figures supplied by the WM company. Its universe includes many big pension funds which are conservatively run. Even so, the WM overseas equity return lagged the index return by more than 11 percentage points.

Does it really matter? Some say not – comparable divergencies in overseas equity performance occurred in 1987 (minus 9.2 percentage points) and 1993 (plus 14.1 percentage points) but in the long run pension fund managers have modestly outperformed the World ex UK Index. Overall, British pension fund portfolios achieved a very satisfactory total return of 16.8 per cent in 1997, according to WM.

This was handsomely in excess of actuarial requirements in a year when employee earnings climbed by less than 5 per cent and was above the 10-year average return of 13.3 per cent.

On the other hand, the consultants John Morrell and Associates point out that the underweighting of the US equity market has cost British pension funds £20bn during the past three years. This is a degree of damage that many funds can ill afford in the context of the Minimum Funding Requirement imposed by the Pensions Act 1995.

Moreover British managers' misreading of Wall Street is beginning to damage their international reputation. WM funds had an allocation of only 4 per cent of portfolios to US equities last year, when 11 per cent would have been a more commensurate exposure on the basis of Wall Street's weighting in the World ex UK Index.

The Caps median fund, incidentally, had only 2 per cent in the US throughout 1997.

Another big blunder was the overexposure to the Far East excluding Japan, a region where markets crashed last year while Wall Street continued to boom.

Caps funds began 1997 with an allocation of 5 per cent to this region, although through a combination of disposals and share price collapses this had been cut to 2.4 per cent by the year-end.

British pension fund managers did get one big bet right last year. They overweighted the buoyant Continental European markets.

Even so, the way has been opened to US-based global managers to poach business by offering strategies more closely linked to capitalisation weights, or possibly bottom-up strategies which place more importance on individual companies and sectors rather than national markets.

The British managers face criticism for excessive reliance on top-down strategies, and also for depending on value-based methods which have been left behind by global valuation shifts and the focus upon growth stocks.

Some British managers deliberately take extreme views. PDFM, for example, has a standard allocation of zero to US equities.

Most houses, however, are relatively cautious and it would be reasonable to expect that any bearishness about Wall Street would be reflected in only a slight under-exposure.

So how have they wound up with a two-thirds underweighting, which is a huge bet by any standards?

Consultants are pinning the blame on mistakes of judgment by the powerful strategists who dominate the investment policy of the big pension fund houses.

At Watson Wyatt's big seminar for fund managers in February, for instance, the firm's top investment consultant Roger Urwin accused the leading managers of not understanding shifts in the investment markets and of failing to pay enough attention to the downside of their own "skill cycle".

The remedy, he suggested, was for pension scheme trustees to diversify their risks away from the handful of dominant balanced managers by also hiring index-tracking and specialist managers.

Some fund managers, however, say that the consultants are largely to blame for encouraging trustees to adopt median-related benchmarks.

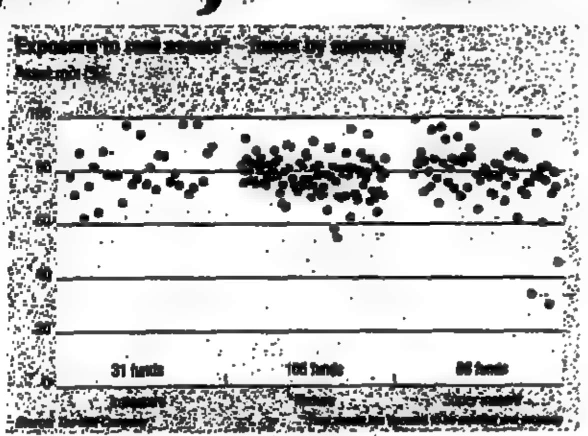
These peer group-related benchmarks give great comfort to trustees. They like to run with the herd; but in 1997 the herd was stampeding in the wrong direction – away from Wall Street.

Perhaps a crash will yet prove the herd right, even now. But fund managers have been driven to control their risks against the median fund's strategy rather than against the global indices.

BENCHMARKS • by Barry Riley

Strategic adjustment

The high risk tolerance of UK funds has paid off in satisfactory returns



For many years a large majority of British pension scheme trustees have clung to the security of the consensus asset allocation, whatever the actuarial arguments for the more specific matching of investments to liabilities.

Moreover, the "one size fits all" strategy of targeting, for instance, the WM average, has delivered highly satisfactory returns, with an average annual total of 13.3 per cent over the past 10 years.

For several years, however, WM has been featuring a chart which illustrates the linking of fund strategy, defined as percentage exposure to real assets, and fund maturity. According to the age profile of the scheme membership, it divides funds into three categories – immature, mature and super mature.

The chart shows that there is no connection between maturity and strategy except for a handful of super mature funds which have got the message that they should be matching pensioner liabilities against bonds.

Two developments, however, are likely to force a rapid change. First, the consensus strategy has itself begun to underperform, especially in British stock selection and overseas asset allocation.

Notably, British pension funds have missed out on the Wall Street boom. True, this may only amount to a temporary wobble.

The second factor is more fundamental. The Minimum Funding Requirement was introduced just over a year ago as one of the measures of the Pensions Act 1995. It will bite progressively over the next few years.

Moreover, pension schemes must now produce an annual statement of investment principles which justifies each scheme's investment strategy on an individual basis.

The MFR is proving unexpectedly restrictive because of the way the formula was designed on advice from the actuarial profession.

The actuaries insisted that a valuation basis for British equities based upon dividends should be used. Historically this has given a less volatile valuation than market price-related formulas.

Unfortunately, the MFR has run straight into trouble because of the change in taxation of dividends in last July's Budget and the general slowdown in dividend growth because many British companies, under US influence, are preferring to consider returning cash through share buybacks rather than large increases in regular dividends.

An urgent reconsideration of the MFR formula is under way, and any changes will probably place a much greater emphasis on market values. So long as the market remains so strong this will take the immediate pressure off pension schemes.

But at the same time the risks arising from a future stock market setback will have become much greater. A proposed new accounting standard for pensions may further expose companies to market volatility.

These risks can be reduced by shifting a scheme's investment strategy towards the MFR benchmark. For mature schemes this will mean investing a much higher proportion of the portfolio in fixed interest or index-linked gilts, or perhaps in other kinds of bonds.

There is evidence that British funds are moving slowly towards these liability-driven customised benchmarks. Aggregate figures for the WM All Funds Universe, which represents more than three-quarters of the value of all British pension funds, show that £16.8bn was taken out of equities in 1997 and £13.7bn was added to bond portfolios.

The average allocation to British bonds has risen from 7 per cent to 12.8 per cent in five years and total equity exposure has drifted down from 80.1 to 72.4 per cent over the same period.

All the same, there is potentially a long way to go because, according to the consulting actuaries Bacon & Woodrow, an average pension scheme has only 60 per cent of its MFR benchmark allocated to equities, with the remaining 40 per cent matched to bonds.

But the formerly high risk tolerance of British funds has paid off in terms of high returns, and there is some concern at the long-term cost of a reduction in equity allocations.

Accordingly, some fund managers are trying to square the circle of reduced risk and high returns. For instance, Dresdner RCM Global Investors, the former Kleinwort Benson Investment Management, has launched derivative-based products which aim to add an equity kicker to a core gilt holding.

Another problem with the MFR benchmark is that it makes no special allowance for overseas equities.

This may not explain just why the average overseas equity allocation fell by more than two percentage points, or one-tenth, last year, as this may have had more to do with British pension fund managers' aversion to Wall Street.

The need to redefine equity asset classes is highlighted, however. Last year there was a striking difference between the performance of the big, international stocks listed in London and the smaller domestic stocks included in the FTSE 250 and SmallCap indices.

In Continental Europe there is much discussion of the impact of the single currency, which will have a powerful effect in integrating the capital markets of the 11 countries which are expected to adopt the euro.

If Britain adopts the euro within the next few years a similar reappraisal will be forced of the distinction between British and overseas equities.

UNITED STATES • by John Authers in New York

Question of adaptation

Outsourcing has enabled managers to handle several large corporate accounts

It may seem hard to believe anywhere else in the world, but pension fund management has become a topic of mainstream conversation in the US. Changes in the structure of the industry, and in the demographics of the US population, have left individual savers with a far greater grasp and knowledge of how pensions operate.

But the industry is still only just beginning to absorb how this change should affect the way in which companies should be managed.

The rise of defined contribution plans, which have now overtaken defined benefit plans as the most widely held, has hastened the power of outsourced fund managers at the expense of in-house managers.

From 1975 to 1991, according to statistics produced separately by the General Accounting Office and Merrill Lynch, the proportion of companies which offered defined contribution plans rose from 55 to 97 per cent, while the proportion offering defined benefits fell from 55 to 41 per cent.

Transparent defined contribution plans where savers are offered a range of funds, and can vary both the allocation between the funds and their total level of investment, led this trend. These funds, known as 401(k)s for most companies, after the section of the Employee Retirement Income Security Act (Erisa) of 1974 which brought them into being, were offered by 70 per cent of companies by 1991 – double the proportion which offered them 15 years earlier.

The growth of 401(k)s continues to be swift, with total assets managed by the funds rising from $385bn in 1990 to $857bn by the end of 1996, according to the Washington-based Investment Company Institute.

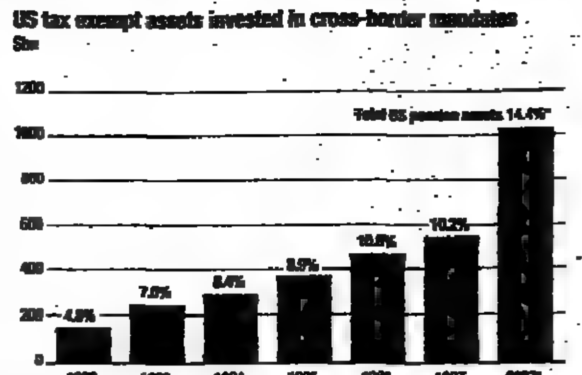
Outsourcing through 401(k)s has allowed fund managers to build scale, as they can handle several large corporate accounts. With all corporate plans being offered investments in the same funds and with administration from the same central processing system, the search is now on for economies of scale. This logic has underpinned a series of mergers in the US over the past year, including the combinations of Morgan Stanley with Dean Witter Discover, and of Zurich Kemper with Scudder, Stevens & Clark.

The 401(k) structure, where funds are held within a tax-free account, has also made it easier for mutual fund companies to build share swiftly, at the expense of traditional institutional managers. Mutual fund assets in 401(k) plans increased from $16bn at the beginning of this decade to $334bn by the end of 1996, a rise in their share of the market from 4 to 39 per cent.

But while mutual fund companies traditionally built their brand identities on the back of investment performance, a range of extra services is now becoming important, as they adjust to the fact that their ultimate customer is a risk-averse worker, rather than a corporate financial officer.

According to Nicholas Lopardo, chief executive of Boston-based State Street Global Advisers, one of the largest US pension fund managers, the new system will involve a transfer of responsibility and power which "will see each employee continue to build assets as part of a programme the employer sponsors and administers". He said: "The system will be neither institutional nor individual, but 'instividual', with both parties having important roles and responsibilities."

US tax exempt assets invested in cross-border mandates
$bn



Source: InterSec Research *estimate

"Investor hot lines" have featured among the more obvious manifestations of this phenomenon. Employers require 401(k) managers to undertake education of their workforce. Apart from forcing the companies to produce clear and reasonably understated literature, it is also now standard to make 24-hour help-lines available for investors who are worried, or want advice.

These seemed to prove their worth during the closing days of October last year, when the New York Stock Exchange was forced to close early after a fall of more than 550 points in the Dow Jones Industrial Average. The largest plan sponsors reported record volumes of calls from concerned investors. But most savers took no further action once they had discussed the situation, and had been convinced not to sell equity funds after a market decline.

The weight on providing services to employees, rather than simply on investment performance, is likely to increase, as pension fund managers attempt to use their foothold as a 401(k) manager to offer a range of financial advice.

Branding has already become far more important for pension managers than it ever was in the past. The decision on awarding a contract to a 401(k) manager usually rests with a human resources department, but they will be keen to offer their employees a name which they know and trust.

It is not a coincidence that the two largest 401(k) managers, Fidelity Investments of Boston, and the Vanguard Group of Philadelphia, are also the two largest mutual fund managers, with names which are easily recognised.

Insurance companies are also trying to retain their strength in the market by offering a broader array of employee benefits. For example, Richard Huber, chief executive of Aetna, the large Connecticut-based insurer, suggests there are prospects for cross-selling both health insurance and pension fund management, both of which require accurate record-keeping.

But while the industry is booming at present, it is recognised that this cannot continue indefinitely. The growth in fund assets has been driven by demographics, with the post-war "baby boom" generation now past their 50th birthdays and saving heavily for retirement. In another 10 years, a recent report by Goldman Sachs, the investment bank, pointed out that this trend will go into reverse as the baby-boomers start to retire and cash in their plans.

Another cause for concern is that the market for large companies' 401(k) plans is maturing, and providers are now focusing on smaller companies, whose plans will probably be more costly to administer. And in companies which had a 401(k), only 78 per cent of employees bother to contribute – which suggests the industry's education efforts have further to go.

JAPAN • by Gillian Tett in Tokyo

Reform or face a crisis

The pension system will be unable to cope with a rapidly ageing population

Philip Colebatch, president of Credit Suisse Asset Management, does not mince his words. "Japan is now close to number one for us globally [for asset management business]," he says, explaining that his company's Japanese assets under management have increased by about 50 per cent to Y1,200bn over the past year. "The opportunity here is just phenomenal," he adds.

It is a message that many western fund managers are echoing this summer, as Japan embarks on its long-heralded Big Bang deregulation of its financial sector.

For though it remains unclear whether Big Bang will deliver serious change in the banking world, pensions is already proving to be one of the fastest areas of change. Indeed, even before Big Bang starts, the proportion of money managed by non-traditional pension fund groups has risen sharply over the past year, creating new opportunities for non-Japanese groups.

And, as the Japanese economy stagnates and deregulation gathers pace, the signs are that this surge will continue. "We expect to see continued high growth," argues Hiroshi Nakagawa of Intersec. "It's an exciting time."

The reason for the growth is clear. Japan's population is now ageing fast: by 2025 it is projected that more than one quarter of the country's population will be over 65. But the country's current pension system is ill-suited to cope with the demographic shift. Consequently, a pension crisis looms, unless there is radical reform.

The problem has arisen because at present there are two main groups of pension schemes in Japan. Public pension schemes provide a minimum pension for the population as a whole. Companies and industry associations also run additional pension plans, which traditionally have been managed by Japan's vast life assurance companies and trust banks.

Leading managers of specialist Japanese equity portfolios for European pension fund clients

Manager	Home country	Number of funds
Schroder Investment Management	UK	18
Gartmore	UK	9
JP Morgan Investment Management	USA/UK/GER	8
Jardine Fleming	HK	6
Baring Asset Management	UK	5
DICAM (UK)	JAP/UK	5
Nomura Asset Management	JAP	4
Yamaichi	JAP/UK	4

Source: William M Mercer — As at 30/06/97

Both of these schemes face deep problems. On the public pension side, the demographic shift means that the current scheme will not have sufficient funds to meet the current liabilities without a significant rise in taxes or national debt.

Meanwhile, the corporate schemes appear grossly under-funded. As David Asher and Andrew Smithers, two independent economists point out, the proportion of private sector workers covered by such corporate schemes is similar in Japan to the UK and US. However, the assets are a mere seventh of the size.

And though the level of under-funding is difficult to measure through Japanese accounts, the balance sheet of the 24 companies which file US accounting statements suggests the shortfall is around 40 per cent or more. "This discrepancy suggests serious under-funding," they conclude. "The real situation is likely to be even worse than this data implies."

This under-funding could have a painful impact on corporate balance sheets and could create a huge social security burden for the pop-

Continued on page 6

CONTINENTAL EUROPE • by Debbie Harrison

Time bomb is still ticking

For the countries with the most generous state pensions, radical surgery is needed

The European pensions market is undergoing a period of development triggered by the most significant demographic and social changes since the second world war.

The classic hallmark of the post-war welfare state was the "pay-as-you-go" (PAYG) pension system, throughout Europe, where the national insurance or social security contributions of the working population pay for the pensions of the retired generation.

Today the economic and social arguments in favour of PAYG appear seriously flawed. In most European countries, populations are ageing so that the number of young workers coming into the workforce is no longer enough to maintain a balance between the size of the workforce and the size of the growing number of elderly people drawing benefits. Moreover, the disintegration of the extended family means that pensioners often need more state help for their long-term care needs.

Over the past decade most governments have raised their state pension age, lengthened the contribution period and reduced benefits. For some this will suffice for a while but for the countries with the most generous state pensions, more radical surgery is required.

In Germany, the state pension scheme is in deficit to the tune of some DM10bn. In France and Italy the only difference between deficit and bankruptcy for these schemes is the governments' willingness to continue to bail them out through additional subsidies.

The problems are not confined to the European Union countries. Russia and Ukraine are considering plans to close the state pension scheme completely, while Kazakhstan has already implemented a progressive replacement of the state scheme by a new private, mandatory system.

In Hungary and Poland, parliaments have voted for a mixed system. In Romania, the government is also adopting this approach. Here the aim is to combine a reformed PAYG system with a mandatory private system and a regulated voluntary private system.

The principal arguments for retaining a reformed PAYG system as one of the pillars of the new architecture is diversification of risk. In the emerging economies at least, the risks inherent in the wholesale construction of capital market institutions, combined with the volatility of their small securities markets, creates a strong political argument against a radical shift to an exclusively private system.

The transition from state to private-funded pensions will be slow and will incur considerable costs because workers will need to redirect part of their national insurance contributions to their own plans, thus reducing the contributions available to pay the current pensions bill. Several emerging economies have used funds from the privatisation of state industry to cover the transition costs but this is not an option in many of the developed European countries.

Moreover, the introduction of funded private pensions will not in itself ensure adequate universal provision. Giovanni Tamburi, of Geneva consultants Policy and Research Europe, warned: "In the EU countries, the crucial issue at the end of the century will not be shortage of capital but shortage of work. Despite the availability of large financial assets, both domestic and accessible in foreign capital markets, about 12 per cent of the labour force is unemployed."

Nevertheless, the move towards funded pensions is expected to open up European capital markets and to encourage governments to relax investment restrictions. Historically, the compulsory investment in government bonds of the bulk of pension and life assurance funds has been used in many European countries – and elsewhere – as a means of shoring up national debt.

Fund managers in the more developed markets – the UK, Netherlands, Ireland and Switzerland – expect to see a rise in the number of cross-border mandates for pension funds, particularly for specialist services which might not be available locally – for example, international and regional equity and bond funds.

The European Commission is studying ways to break down taxation and investment barriers for pension funds. At present, about 90 per cent of the Ecu1,200bn ($1,308bn) invested in pensions in the EU is concentrated in the two largest markets – the UK and the Netherlands – where private pensions funds represent almost 80 per cent and 90 per cent respectively of the gross domestic product.

If similar funds were to grow in the other EU member states, this would increase the total size of the market to an estimated Ecu5,000bn ($5,450bn) which, the European Commission hopes, would achieve the following:

- Reduce the pressure on pay-as-you-go (PAYG) systems.
- Reduce the costs for employers. This is on the assumption that a 1 per cent increase in returns could lead to a 2-3 per cent reduction in the employer's labour costs.
- Provide capital for industry, growth of the economy and jobs.

The success of the investment strategy in generating returns is crucial. At present restrictions still exist which hamper investment management freedom.

For example, in Denmark there are rules which restrict the amount that can be invested in equities. In 1996, the equity market was buoyant and managers might have been expected to invest more in this asset class. In the event, as the value of their equity holding increased through a rise in stock value, they were forced to disinvest to comply with the rules.

The freedom of funds to invest overseas is also critical since in several European countries, including Ireland and the Netherlands, the value of domestic pension funds exceeds stock market capitalisation. In others – Denmark, Switzerland and the UK, for example – these assets represent more than 80 per cent of gross domestic product.

But the introduction of funded pension schemes and plans alone, without economic growth, will not provide good pensions. Divyesh Hindocha of consultants William M Mercer commented[2]: "The transfer of the pension burden from the state to the private sector will not, of itself, defuse the pensions time bomb. For pensions expectations to be fulfilled, the additional savings generated by the pension funds will have to generate new wealth, not just bid up the prices of existing assets."

1. Global Pensions Strategies, published by Financial Times Finance. Tel: 0171 896 2274. 2. William M Mercer, European Pension Fund Managers Guide 1997-98. Tel: 0171 222 9121.

Population and pension assets in Europe

Country	Population in millions	Dependency ratio* (%)	Value of pension assets ($bn)	Pension assets as a % of GDP	Pension assets per capita ($000's)
Belgium	10.2	24.2	[illegible]	11	2.5
Denmark	5.5	22.4	145	86	27.9
Finland	5.1	20.6	[illegible]	36	7.2
France	58.0	22.7	[illegible]	7	1.5
Germany	82.0	21.7	232	14	2.8
Ireland	3.5	18.0	[illegible]	42	8.0
Italy	57.4	23.2	91	7	1.6
Netherlands	15.6	18.8	362	127	22.9
Norway	4.4	23.0	[illegible]	23	7.9
Portugal	9.9	22.4	10	9	1.0
Spain	39.3	23.6	[illegible]	6	0.8
Sweden	8.9	28.5	172	69	19.3
Switzerland	7.1	22.4	[illegible]	117	40.8
UK	58.8	24.8	1005	77	17.1

Source: William M Mercer — *Population aged 65+ as a proportion of population aged 15-64

Leading managers of specialist global bond portfolios for European pension fund clients

Manager	Home country	Number of funds
SBC Brinson	[illegible]	[illegible]
Fiduciary Trust International	[illegible]	[illegible]
Capital Guardian	[illegible]	[illegible]
Morgan Grenfell Asset Management	[illegible]	[illegible]
Gartmore	UK	14
Dresdner	[illegible]	[illegible]
Foreign & Colonial	[illegible]	11
[illegible]	[illegible]	11
[illegible]	[illegible]	11
Pictet & Cie	SWI	10
UBS Asset Management Switzerland	SWI	10

Source: William M Mercer — As at 30/06/97

Leading managers of specialist global equity portfolios for European pension fund clients

Manager	Home country	Number of funds
Capital International	USA/UK/SWI	35
SBC Brinson	USA/SWI/UK	30
Darier Hentsch & Cie	SWI	27
Schroder Investment Management	UK	22
Julius Baer Asset Management	SWI	21
Morgan Grenfell Asset Management	UK/GER	21
Pictet & Cie	SWI	20
Barclays Global Investors	UK	18
Carnegie Asset Management	[illegible]	15
Gartmore	UK	15

Source: William M Mercer — As at 30/06/97

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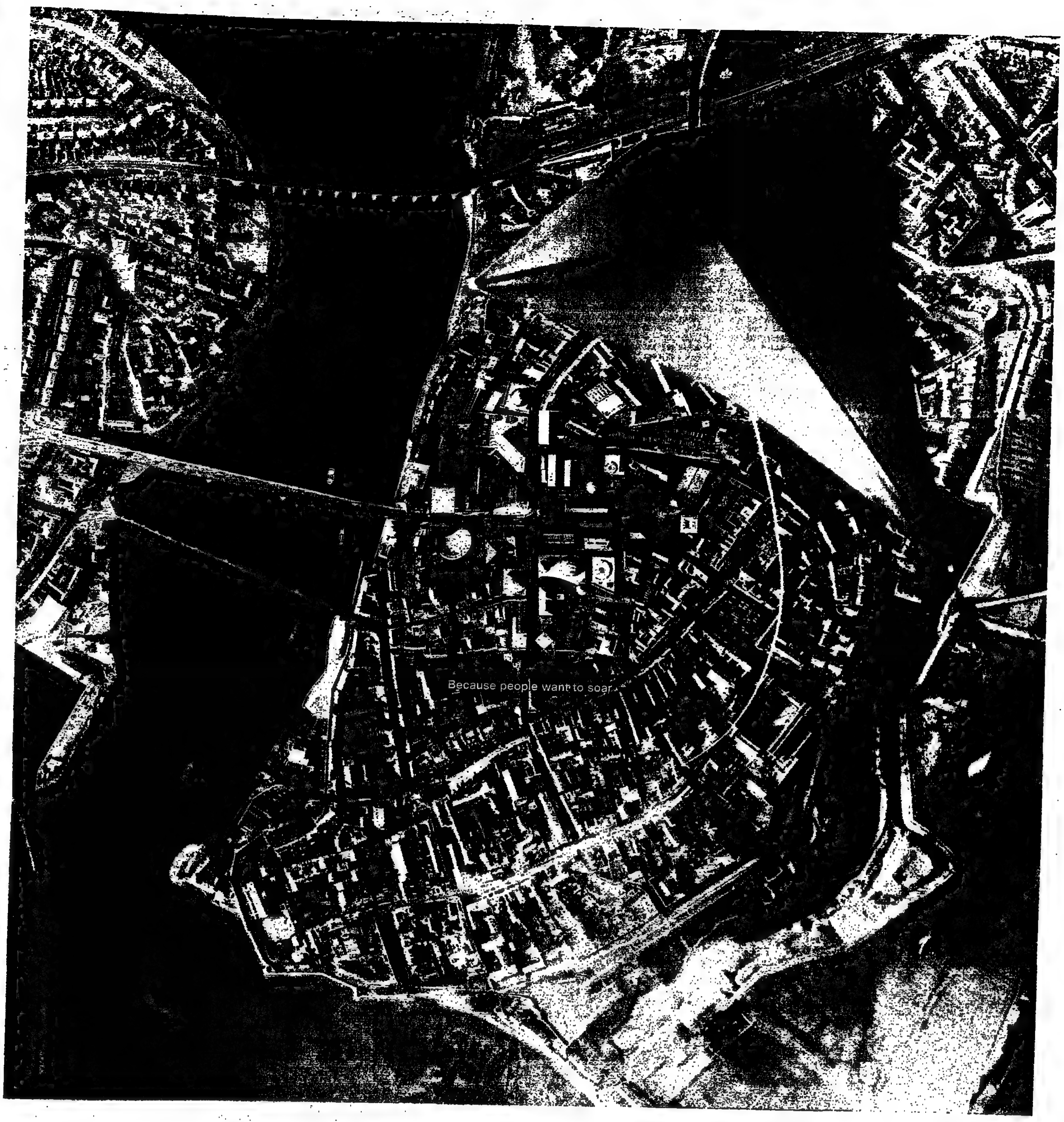


THE WORLDWIDE FUNDING REVOLUTION • by Martin Wolf

Oldies cause revolution

Making the transition to private funding is tricky, but not impossible

A global revolution is occurring in pension provision – one led by the developing countries. For this there are two reasons: first, traditional pay-as-you-go (PAYG) public pension systems have, in general, been managed far more inefficiently and are even closer to unsustainability there than in high-income countries; second, the relatively more advanced countries of eastern Asia and Latin America are about to experience – and the transition countries of central and eastern Europe have already experienced – the same ageing of their societies as high-income countries.

The pension revolution in developing countries is not yet universal. Singapore and Malaysia introduced compulsory retirement savings programmes during the 1960s. But these, while important in raising national savings, were monopolies that continued to invest the bulk of their assets in government liabilities. The true pioneer was Chile, which set up a system of competing private funds allowed to invest in a wide range of assets, as long ago as 1981.

By now, Chile's example has been followed by a large number of Latin American countries. Plagued by low national savings and a history of fiscal profligacy, these countries have been under particularly strong pressure to reform.

In eastern Asia, the example of Malaysia and Singapore is being followed by the new Thai government, which has announced plans to introduce a compulsory 10 per cent pension fund tax on civil servants, employees of state enterprises and workers in large corporations. More important still is China, where the need to shift the pension burden from state enterprises and the desire to improve financial intermediation come together to put pension reform high on the government's agenda.

In central and eastern Europe, countries are grappling with the malign combination of high western European rates of ageing with low post-communist incomes. To make matters worse, early retirement in the immediate aftermath of the collapse of communist regimes has pushed the pension burden to extraordinary levels.

In Poland, for example, the cost of retirement and disability benefits already exceeds 15 per cent of gross domestic product, compared with an average of 11 per cent in western Europe, while social security contributions are 45 per cent of the wage bill. This frighteningly heavy burden – forecast to reach 22 per cent of GDP by 2035, without reform – has caused Poland to introduce substantial reforms. For similar reasons, reforms have also been introduced in Hungary, where implicit pension debt equals 200 per cent of GDP. The same is true for several other countries in transition.

The options available to reformers were laid out in a comprehensive analysis of ageing by the World Bank (*Averting the Old Age Crisis*, 1994). It argued that security in old age should rest on a combination of three pillars: first, traditional public PAYG systems; second, compulsory funded schemes, usually, but not always, based on defined contributions; and, third, voluntary defined benefit schemes. The reformers have either added the second and third to the PAYG system, or abolished the latter altogether.

Choices made by eight Latin American countries are shown in the table. Chile, Mexico, Bolivia and El Salvador have closed their PAYG systems, which have been replaced by mandatory private funded systems. Peru, Colombia, Argentina and Uruguay have merely added voluntary private funded systems to the PAYG system, as have Hungary and Poland.

The second generation pension reforms
Main features of the new models

	Chile	Peru	Colombia	Argentina	Uruguay	Mexico	Bolivia	El Salvador
Start of operations	1981	1993	1994	1994	1996	1997	1997	1998
Public PAYG system	closed	remains	remains	remains	remains	closed	closed	closed
Private funded system: Affiliation of new workers	mandatory	voluntary	voluntary	voluntary	voluntary[a]	mandatory	mandatory	mandatory
Fund management companies	AFP	AFP	AFP	AFJP	AFAP	AFORES	AFP	IAFP
Contribution rate for savings (% of wage)	10	8[b]	10	7.5	7.5	6.5 + subsidy	10	4.5[b]
Commissions + insurance (% of wage)	2.94	3.72	3.46	3.45	2.62[c]	4.42	3.00	3.5
Contribution collection	decentralised	decentralised	decentralised	centralised	centralised	decentralised	decentralised	decentralised
Past contributions	RB	RB	RB	CP	no recognition	life-time switch	CP	RB
Disability/survivors insurance	private	private	private	private	private	public	private	private
Supervision	specialised	specialised	integrated	specialised	integrated	specialised	integrated	specialised
Account transfers	3 x p.a.	2 x p.a.	2 x p.a.	2 x p.a.	2 x p.a.	1 x p.a.	1 x p.a.	2 x p.a.
Minimum rate of return	relative	unregulated	relative	relative	absolute	no	no[d]	relative
Minimum pension	yes	no	yes	yes	yes	yes	[illegible]	yes

*Notes: RB = Recognition Bond; CP = Compensatory pension; AFP = Administradoras de Fondos de Pensiones; AFJP = Administradoras de Fondos de Jubilaciones y Pensiones; AFAP = Administradoras de Fondos de Ahorro Previsional; AFORES = Administradoras de Fondos de Ahorro para el Retiro; IAFP = Instituciones Administradoras de Fondos de Pensiones. a. Participation in the funded system in Uruguay is mandatory only for high-income workers. b. Contribution rate will be increased gradually to 10 per cent. c. Due to administrative savings, [illegible] d. [illegible]

Source: OECD

Making the transition to private funding is tricky, but not impossible. If the PAYG system is wound up, the implicit pension liabilities of the scheme must be made explicit and transferred to the new private schemes. This creates a big jump in visible public debt. This implicit debt can be very large: in Uruguay, it was 214 per cent of GDP in 1995; it was 142 per cent in Mexico in 1994. Yet, if the PAYG scheme is not wound up at once, current contributors have to pay the pensions of retirees under the PAYG scheme while making contributions to their own funded scheme. These problems can be mitigated, though not eliminated, by reducing the generosity of PAYG promises.

Shifts towards a private funded system are still very recent, except in Chile. But the longer-term implications are demonstrated by what has already happened there. Total assets at the end of last year were $32.9bn, 44 per cent of GDP. Elsewhere, assets were far smaller: 2.8 per cent of GDP in Argentina, 2.1 per cent in Peru and 1.3 per cent in Colombia. But the potential for further growth is enormous. The results will then include not just a transformation in pension arrangements, but, as important, a revolution in capital markets and in corporate governance, as well.

In a splendid analysis of reform in Latin America, for the Development Centre of the Organisation for Economic Co-operation and Development, Monika Queisser notes that, in addition to the build-up of capital, the new systems have enjoyed high real rates of return, have been widely accepted by younger workers and have already had a powerful impact on the development of capital markets.*

Nevertheless, there are problems: one is the very high marketing costs incurred by pension fund managers, partly caused by the excessive frequency of switching among funds, despite the similarity of portfolios. Operating costs have increased from 1 per cent to 3 per cent of wages in some countries. Also worrying is the low proportion of people making regular contributions – on average only about half. This raises the danger that, in the end, income in retirement will prove inadequate for many.

Nonetheless, the fact that so many developing countries have managed either to replace their PAYG systems altogether or introduce new funded systems alongside them is remarkable. The pension fund revolution is accelerating worldwide. How long can it be before it rolls across continental Europe as well?

* *Monika Queisser, The Second-Generation Pension Reforms in Latin America (Paris: OECD Development Centre Studies, forthcoming).*

INVESTMENT IN EMERGING MARKETS • by Henry Tricks in Mexico City

Signs that appetite for paper is returning

Turmoil in south-east Asia sent shock waves as far afield as Brazil and Russia

The fledgling cross-border foray of private pension funds into emerging markets this decade has been a chequered experience.

Bumper returns in the balmy days of the early 1990s were wiped out in weeks when Mexico's peso crisis hit in 1994. Three years later, turmoil in south-east Asia sent shock waves as far afield as Brazil and Russia.

Funds that had put aside their traditional aversion to risk to cash in on the emerging market cult are still reeling from the shock.

So was it unwise to entrust retirement savings to markets with such a track record of instability?

The short answer, at least as far as equity investment is concerned, appears to be yes. In the three years since Mexico's peso crisis, returns on funds invested broadly in emerging market equities have been dwarfed by gains in safer and more liquid US and European stocks.

The performance of developing country bonds has been better than stocks, but in a cruel twist, the Asian crisis hit just as issues such as a 30-year global from Brazil had been marketed with a clear eye on the growing demand for long-term paper from international pension fund managers.

In October, JP Morgan's emerging market bond index – which tracks returns on debt instruments – ballooned from 330 basis points to more than 800 basis points. It has since recouped much lost ground, but is still hovering between 450-600 basis points over Treasuries.

In the debt markets, there are signs the appetite of institutions for emerging market paper is recovering, albeit at a price. Issuance of Latin American bonds, all but dead at the start of 1998, bounced back in March and April to reach the same $20bn level sold in the first four months of last year.

The equity markets are a different story, however. Fund management specialists say pension funds were timid operators in the first place. When those that did risk investing in Asia got caught out, their first reaction was to retreat into cash and bonds. Now they have opted for the "risk-averse" strategy of investing in equities in the US and Europe.

"They have not gone for emerging markets, whether Latin American, Asian or anything else, except very much at the margin," says Michael Hughes, a manager at Flemings, the British investment banking group that has $13bn under management in emerging markets. "People unfortunately have a big eye for the past when they're deciding where to put their money and in the recent past it has not been a good proposition to invest in emerging markets."

For developing countries hoping that overseas pensions will deepen the pool of savings available for their stock markets, the impact so far has been unspectacular.

Mr Hughes says pension fund managers prefer the guaranteed yield of debt instruments, even if equities can provide more long-term growth.

Unhelpful to the selling of stocks is also the fact that many fund managers continue to take a "top-down" approach to their emerging markets investments, making decisions based on macroeconomic characteristics, rather than on a company's individual valuation.

What may be more positive for the development of local stock markets is the recent surge of domestic private pension funds, especially in Latin America, which are partly aimed at providing a buffer of local investment against the jumpiness of international portfolio managers.

Mexico, which launched a new social security system last July requiring compulsory contributions to personal pension accounts, has already affiliated more than 11m workers, almost all of those that were eligible to join.

In its first seven months, the pool of retirement savings generated was 12bn pesos ($1.5bn), with new fund management companies providing average real returns of 8 per cent, according to the industry body Amafore.

Chile, which pioneered private pensions in 1981, has $33bn under management and the government says real annual returns have averaged 11.8 per cent since inception. In total, according to Salomon Smith Barney, the US investment bank, there are more than 27m workers affiliated to private pension fund administrators in Latin America, where Peru, Argentina, Colombia, Uruguay, Bolivia and El Salvador have also followed Chile's lead.

In Chile's case, the social security reform is credited with bolstering local financial markets, as well as boosting the nation's savings rate to the highest in the region. Other countries are hoping to emulate that, though in Mexico, for example, net savings are not expected to increase while the state continues to support existing pensioners.

The experience of south-east Asia has shown that high savings rates are not enough to insulate developing countries from financial shocks, and some economists argue that pension reform alone is no panacea.

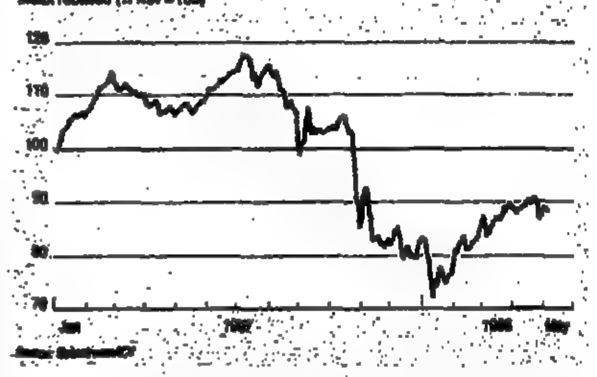
"I think [Latin American] pension funds have been over-rated in their ability to increase domestic savings. They're a way to channel domestic savings, but those savings are also a factor of taxation rules and incentives to save which we haven't really seen yet," said Walter Molano, head of financial research at SBC Warburg Dillon Read.

This year, according to José Garcia-Cantera of Salomon Smith Barney, a slow down in growth and a rise in unemployment in parts of Latin America in the aftermath of the Asian crisis mean contributions to pension funds may deteriorate.

Also, because of the weak state of the region's stock markets, returns could suffer, though these will be partially offset by the performance of fixed-income investments. But he believes local support for private pensions will remain in tact.

"This year is going to be a difficult year," Mr Garcia-Cantera said. "All the markets in Latin America have performed very poorly with the exception of Brazil. I believe that will have an effect on returns but people already understand that this is for the long term."

IFC Composite
Index rebased (1/1/97=100)



Source: Datastream/ICV

Reform or face a crisis

Continued from page 4

ulation in coming years. The Organisation for Economic Co-operation and Development, for example, calculates that without reform the pension schemes will require contributions equivalent to some 30 per cent of employees' income to stay afloat by 2020.

Even now signs of the strain are emerging. Over the past year 14 small employee pension schemes have collapsed. In recent months a pension scheme run by the national Rice Dealers Association has also failed, the first such industry association scheme to have collapsed. Meanwhile, some companies have already started to quietly reduce payments: Hitachi, the electronics group, for example, recently cut pensioners' benefits.

Behind the scenes some companies are quietly rethinking their pension strategy. For, quite apart from the population pressures, a key reason for the under-funding is that traditional Japanese fund managers have been offering falling yields on their investments in Japanese instruments. Although companies have previously assumed annual returns of around 5.5 per cent, for example, life assurance groups are now offering returns of 2.5 per cent.

These sums have left some companies looking for alternatives. And the search has been boosted by recent government reforms that give companies and public institutions more freedom over their fund allocations. In 1996, for example, the government relaxed the so-called "5-3-3-2" rule, which stipulated how much money companies were allowed to place in different asset classes. The government is also, slowly, permitting companies to use "investment advisers", a third type of pension fund manager which can manage funds with more flexibility and usually offers higher returns.

This has triggered a startling shift in the allocation of funds. The amount of money managed by investment advisers as a whole, for example, grew by 42 per cent in 1997 to some Y15,385bn. And though Japanese investment advisers, such as the Industrial Bank of Japan and Nomura Securities, dominated the sector, foreign groups have been catching up: their share rose to 26 per cent, compared with 12 per cent three years ago.

Meanwhile, foreign groups have also been gaining ground in the Trust Bank market, winning around 35 per cent of new money allocated. Indeed, overall foreigners were estimated to have a 7.6 per cent share of the pension market last September, compared with 5.6 per cent in April 1997.

Some observers suspect that this foreign surge may decelerate if non-Japanese markets, such as Wall Street, start to perform more poorly this year. But in a broader sense, the real change may only now be starting. The government is now mulling the introduction of a defined contribution scheme, along similar lines to the famous US 401(k) schemes. Plans are being mooted to promote the country's underdeveloped private pension sector. Meanwhile, there is growing recognition of the need to introduce more portability for employee pension schemes.

Such additional changes will inevitably take considerable time, given Japan's reluctance to embrace rapid reform. But the government knows it faces a looming pension crisis, without rapid change. Either way, the coming decade looks set to be a momentous one for Japan's pension industry.

ALTERNATIVE INVESTMENTS • by Christine Moir

Hotchpotch catches managers' eyes

There has been a steep interest in assets which do not mirror the markets

As stock markets in the US and Europe have soared fund managers have begun to seek alternative investments. Frank Russell and Goldman Sachs have been monitoring this trend among US fund managers since 1992. Their latest survey shows a steep increase – from US$60bn to US$90bn in two years – in the sums invested in assets which do not mirror the markets. Even more significantly, these so-called "non-correlated" assets now account for nearly 8 per cent of the portfolios of US tax-exempt funds.

By their nature alternative investments are a hotchpotch, ranging from raw commodities to utilities and property, but the main class is venture capital or private equity. Specialist private equity fund managers all report strong growth in funds under management, with particular interest from pension funds attracted by the outperformance of unquoted companies in the nineties.

Advent International, the Boston-based private equity fund manager, raised $1bn for its third Global Equity Fund towards the end of last year and reports continuing interest for global funds as a whole or for the particular emerging market regions. Pantheon Ventures, the UK venture capital organisation set up by Roddie Swire of the British Hong Kong dynasty, also reports strong interest in western European (including UK) opportunities, in addition to the US and Hong Kong, its other main areas of operation.

The interest, it must be said, is not led by UK pension funds. The National Association of Pension Funds carries out regular studies of members' investment profiles and 1997 did not show the dramatic shift reported in the US case. Total investment in venture capital funds amounted to just £1.6bn and for most pension funds accounted for no more than 1 per cent of their portfolios.

This appears to reflect both an inbuilt conservatism among British fund managers (or the actuaries who advise them) and the long-term benefits they have gained from the equity market. Fund managers who have stepped out of line have usually lived to regret it.

But there are some signs that change may be on the cards. In the first place the new Minimum Funding Requirement operates against the primary advantage of equities – its potential for long-term growth. MFR demands a snapshot approach, dependent only on present values of portfolios. In addition, the long bull run in the markets may eventually eliminate the potential for growth. Scepticism is already standing at fund managers' elbows.

It comes as no surprise that Clive Shirling, a director of Apax Ventures and the incoming chairman of the British Venture Capital Association, regards this as a promising moment to push the case for private equity. Not only have unquoted securities outperformed the market throughout the nineties, he points out, but they have become increasingly liquid.

Mr Shirling observes that while share buy-backs are still rare enough among quoted companies for news of one to make newspaper headlines, they are part of the strategy of private owners. Investors can expect as a matter of course, to be bought out as and when profits allow. Trade sales or flotation are also part of the normal cycle of development, particularly in management buy-outs.

A secondary market is also developing in unquoted, off-exchange securities. Fund managers have traditionally been reluctant to invest in venture capital funds for fear of being locked in and unable to sell them. Mr Shirling believes that too has changed. He estimates that there now exists a global secondary market of the order of several billion dollars in venture capital funds and cites cases where US pension funds wanting to sell stakes in Apax funds have found queues of buyers.

UK pension fund managers may also take heart from increased transparency in the venture capital sector. Not only have accounting standards become common to both quoted and unquoted companies, performance figures are also more credible. The British Venture Capital Association (BVCA) has long published performance figures for the sector on which Mr Shirling relies for his claim of a decade of outperformance. But the figures are now independently compiled by the WM company, a performance measurement specialist, whose familiarity to fund managers and actuaries will provide real comfort.

It remains to be seen whether the outperformance of recent years can be sustained, particularly if and when more institutional fund managers are persuaded in by Mr Shirling's honeyed description. Already the weight of money from US tax-exempt funds which has poured into venture capital operations in emerging markets has encouraged budding entrepreneurs to up the price they are demanding for involvement in their businesses. Established European tycoons will not be slow to respond by raising their own values. Venture capital has provided annual returns of more than 30 per cent during the nineties, compared with 18-20 per cent in the stock market. Can it continue to do so as demand grows?

And there is another issue which must be faced. The outperformance of unquoted companies and investment vehicles of the past eight years or so was preceded by a bleak period in the 1980s when failure was the norm for one in every three companies in the sector. If such times come again fund managers will lose no speed in dodging straight back to the markets where they will see the safety of diversification.

GLOBAL CUSTODY • by Jane Martinson

The big keep getting bigger

Assets under custody are expected to grow to $50,000bn by the millennium

If the world's financial markets were to be compared with the dinosaur world of Jurassic Park, its global custodians would be supersauruses.

The industry has redefined the definition of large in recent years as a vicious price war squeezed margins and the investment needed to install new systems has demanded ever greater economies of scale.

Bank of New York's (BoNY) unwelcome $24bn bid for Mellon Bank in April is the latest example of how big keeps getting bigger. The proposed deal would create the largest global custodian in the world with $5,500bn in assets.

The mooted Mellon Bank of New York's dominance of businesses such as securities processing, global custody and depositary receipts would make it one of the US's most profitable, with a return on equity of nearly 26 per cent, according to industry analysts. Processing currently contributes about 35 per cent of pre-tax profits at BoNY, one of the world's three largest custodians.

While margins are thin on the core custody functions of record keeping, settlement and dividend collection, the potential for growth in the market is good. Analysts expect the $40,000bn of assets under custody worldwide to grow to $50,000bn by the end of the century. Gross industry revenues were $6bn globally in 1997.

The trend for the big to get bigger is mirrored in the number of banks deciding to sell out after finding that the margins were just too low. Analysts have offered a rough global fee for these core custody activities of less than 10 basis points.

In the past two years names such as JP Morgan, NationsBank, BankAmerica and Wells Fargo have all decided to exit their custody businesses rather than attempt to compete as a medium-sized operator.

Morgan Stanley Dean Witter, the US-based financial services group, joined this list in April when it admitted that it was in talks to sell its global custody and clearing businesses as part of a move to concentrate on three core businesses – securities, asset management and credit services. The group has about $400bn of assets in custody, a sum which looks minor when compared with that of Chase, the largest US bank which bought the business earlier this month The sum was undertood to be $600m.

The deal increased Chase's assets under custody to about $4,700bn. State Street, a Boston bank, is also one of the world's three largest custodians with assets of more than $3,000bn under custody and has recently announced a more aggressive push into Europe.

The decision by Morgan Stanley was particularly surprising given its relatively recent acquisition – at the end of 1996 – of the global custody business belonging to Barclays Bank, the UK group with a large asset management operation.

Recent consolidation has partly been fuelled by the widespread review of systems and strategies prompted by two huge industrial headaches. These are the approach of the single currency in Europe and the need to adapt computer systems to recognise the year 2000. In reviewing their readiness for these two events many banks have decided to pull out rather than adapt all the systems needed to provide a competitive custody service.

Dan Wywoda, head of Mellon Bank's global securities services in Europe, says that these issues help explain why consolidation is unlikely to slow down. "A lot of business managers are reviewing whether their overall strategy warrants the investment needed to stay in the global custody business," he said. "Out of all this there is the likelihood of another round of consolidation taking place."

Investment costs have mounted as clients have made greater demands on the banks which take care of their assets. Francis Jackson, managing director of global institutional services at Bankers Trust, estimates that about $200m a year needs to be spent on improving the software needed for new products.

Mr Wywoda at Mellon agrees that survivors in the industry will need to offer an ever greater range of services to clients benefiting from increased competition. These additional services include extra information in areas such as corporate governance and risk monitoring.

Like Jurassic Park dinosaurs global custodians are growing rapidly

Mr Wywoda believes that the growth of specialist mandates in the UK and Europe, where fund specific benchmarks are set which need to be measured, should enhance the need for risk monitoring. "We are definitely becoming a bit more of a watchdog to the client," he says. Mellon introduced Investment Monitor, which tracks what funds are doing, about two years ago but is rolling out new features.

Clive Gande, managing director at BoNy, says that compliance monitoring will also become more important as clients move towards asking fund managers to offer a core investment service only.

However, although the economics of the business back the argument for ever greater consolidation, doubts are being raised about the benefits for clients.

Not only are clients faced with regular upheaval – as witnessed with Morgan Stanley – but the issues such as global regulation and risk control come to the fore when a handful of companies dominate the industry.

Size can also be a handicap to service. Some investment managers have complained about failures in areas such as corporate governance where non-domestic custodians have not delivered voting certificates, for example.

These issues are unlikely to stop the relentless urge to merge in the industry but they are likely to become increasingly important as a handful of custodians become more powerful.

Mr Gande at BoNY is not alone when he forecasts that a "maximum of five or so true cross-border custodians" will really matter in the next century. There will be a role for the niche operator but the medium-sized group will find it ever harder to survive.

DERIVATIVES • by Christine Moir

A mature market

The use of derivatives by pension funds continues to increase

Spectacular losses on derivatives trading – which, among others, destroyed Britain's oldest merchant bank, bankrupted a Californian county and exposed the frailty of the Japanese banking giants – was expected to enhance the bans on their use by pension funds or, at least, lead to a significant exodus from the derivatives market.

On the contrary, anecdotal evidence has been mounting for some time that the use of derivatives by pension funds continues to increase. The 1997 survey of members' investment strategies by the National Association of Pension Funds confirms it. In the private sector, 30 per cent of funds admit to using derivatives and a further 39 per cent are permitted to do so if they so wish. Positive attitudes are even more marked in the traditionally more circumscribed public sector. There the admitted users account for 53 per cent with another 21 per cent free to do so.

In nearly all cases use of derivatives is hedged about with formal restrictions – either on the maximum percentage of the fund's value they may represent, on the types of investment they can be used to protect (such as currencies) or on the circumstances when they may be used. Overall, the picture is of an increasingly mature market in which fund managers are familiar with the potential and risks involved.

Andrew Dyson, head of UK investment consulting at William Mercer, has no hesitation in outlining just where derivatives can be used to improve performance. But first he emphasises that "they must be correctly used. They must not be used for gearing", the primary reason for the catastrophic losses in Orange County, California. "They must be used in connection with physical assets."

That said, and with the added proviso of limitations on the maximum sums to be invested in derivatives, either by transaction or in total, Mr Dyson is happy to spell out the types of strategy for which derivatives add value and the circumstances when they can be useful.

Tactical asset allocation comes top of the list in any discussion of portfolio strategies. Mr Dyson supports the common sense view that use of derivatives allows a fund manager to change his allocation strategy much faster and more cheaply than by buying or selling a large number of individual physical assets.

Trustees can also protect a scheme when moving managers, a process that inevitably means some buying and selling as manager B rejects some or many of manager A's strategies. During the weeding out, the scheme can be out of the market for some time. Options can be used to replicate the original position until such time as the new strategy is implemented with the purchases of manager B's preferences.

More advanced is Mr Dyson's argument for using options to bring a scheme closer to the Minimum Funding Requirement. As the new regulations begin to bite, Mr Dyson notes, many if not most schemes will find themselves over-exposed to equities. Fund managers could bring themselves more into line with MFR by replacing some of their equities with options that have more of the characteristics of bonds. In particular, he recommends looking at "cap and collar" instruments. These are instruments where a minimum return is fixed in advance as well as a maximum.

At present, however, this strategy may best be restricted to the virtual reality screens in the research department.

A related development is the growth in defined contribution or money purchase schemes. Here a formula involving options is emerging. The traditional underpinning of such schemes has been a with-profit insurance product. But some fund managers have found an alternative in a mix of cash and equity options. Mercury Asset Management's (MAM) stabiliser fund is thought to be the model of this new strategy.

A more formal study of the benefits of futures and options in fund management, recently produced by the London International Financial Futures and Options Exchange (Liffe), echoes many of Mr Dyson's views. Its strategies start with hedging an existing portfolio, before moving on to anticipatory hedging and cash flow management (through buying futures and selling put and buying call options). Only then does it outline buying and selling futures as a way of strategic asset reallocation. Finally, it looks at speculative strategies aimed at income enhancement. These involve holding stock while selling a call option or holding cash while selling a put.

It would be facile to dismiss the Liffe study as a simple marketing ploy. The matter of risk is properly addressed. Each strategy is separately spelled out, together with its expectations, assumptions and profit/loss potential. A special note is then added on how precise the strategy is likely to be in meeting its goals. On simple vanilla-flavoured hedging, for instance, it notes "it is not always possible to hedge a position exactly since the instrument used for hedging may not be an exact replication of the asset to be hedged. Also, it may not be possible to sell the exact value . . . [given the] nominal £50,000 value of each futures contract."

Robert Armstrong, who heads the market development department at Liffe, is certain that continuing growth in the use of derivatives depends critically on an equal understanding of both the upside potential and the downside risk inherent in the products and strategies.

GLOBAL BONDS • by Edward Luce

Switched on to autopilot

Despite the rise of sterling and the dollar, returns on Continental bonds have been robust

Funds specialising in fixed income could quite happily have switched on to autopilot over the past 18 months. Although there have been plenty of opportunities to outperform the benchmark indices, a passive approach would still have yielded near double-digit returns.

Fund managers in the US and in the UK continued to benefit from the convergence of European government bond spreads towards the German benchmark yield. Despite the appreciation of sterling and the US dollar, returns on Continental bonds – in particular Italian BTPs and Spanish bonos – have been robust.

With the spread of 10-year BTPs over German bunds now below 25 basis points (as opposed to 150 basis points this time last year) little juice remains in the convergence process. Nevertheless, the reduction of headline inflation across Europe over the past 12 months has been good for bonds in general.

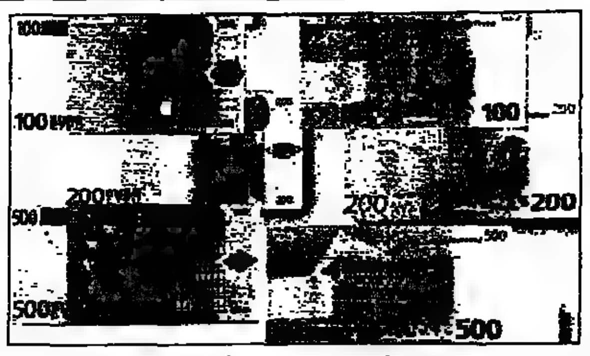
At the same time, US Treasury bonds have performed well with the yield on the 30-year maturity dropping below 6 per cent for most of the past six months. This has been underpinned by confidence in the persistence of the Goldilocks economy: moderately strong growth with low inflation.

UK gilts have generally been outperformed by the US and other European markets because of the rise in short-term interest rates. The newly-independent Bank of England has raised short-term rates five times since last May bringing prime rates up to 7.25 per cent. This is almost double the level of prime rates in the core continental economies. Although the yield spread of gilts over bunds has roughly halved to around 100 basis points, convergence is still some way off.

Finally, in Japan fund managers have made strong gains on the rally in government bonds with yields falling below 2 per cent (at one stage it almost touched 1.5 per cent).

Broadly speaking, therefore, the macroeconomic outlook for bond investors has rarely been more propitious especially in the light of the disinflationary impact of the financial crisis in Asia. Across almost every market, the combination of falling inflation and lower budget deficits has boosted government bond prices and look set to continue to do so.

Nevertheless, pension fund managers in Europe are slowly becoming accustomed to the fact that government bonds will be much less attractive to hold after economic and monetary union next January.



The euro will cut potential exchange rate gains

The replacement of 11 currencies by the euro will eliminate the potential for much of the exchange rate gains to which fund managers are accustomed. The asset management industry is therefore having to re-tool itself for the far more complex task of analysing corporate and emerging market credits.

"A lot of funds are constrained to investing in AAA or AA paper," said Peter Price, director of fixed income at Hill Samuel Asset Management. "But some of the less restricted funds are starting to look at A or even BBB-rated credits in this new environment."

Although the process may take some years, many in the industry believe the market will eventually "Americanise". Five years hence, European fund managers will be as equipped to analyse junk bonds and BBB credits as they are currently able to master government bond markets. This will involve an enormous culture shift.

"Pension funds are aware that their world is going to change quite fundamentally in some respects," said Paul Abberley, head of fixed income at Lombard Odier Asset Management, a private Swiss bank. "Everybody is starting to look at credit analysis more seriously."

From less than 5 per cent at present, total portfolio allocation to emerging market bonds should rise to around 10 per cent over the next five years, predicts Mr Abberley. The proportion going to bonds with ratings of less than AA should rise commensurately.

At the same time, however, investment in AAA-rated corporate and government paper is also expected to rise as treasuries whittle down their issuance calenders. Assuming the first 11 members of Emu abide by the "growth and stability pact" (to maintain budget deficits of below 3 per cent), the flow of government bonds will continue to decline.

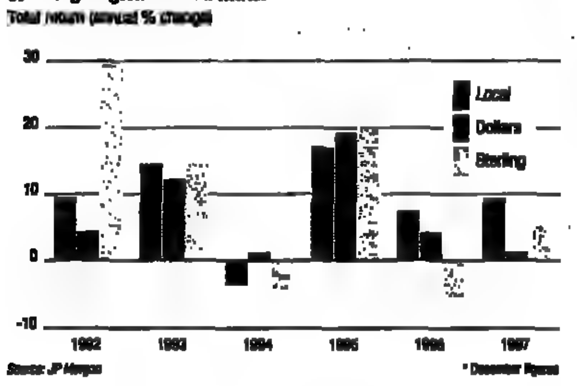
The gap will increasingly be filled by borrowers such as Fannie Mae, the US Federal National Mortgage Association, and the World Bank. Both of these – and, to a lesser extent, the European Investment Bank, the large German public sector banks and some of the best known US corporate issuers – have issued jumbo bonds in 1998 in an attempt to reduce costs by providing investors with greater liquidity. These "surrogate" government bond issues have been generally well received in the market.

Brian Mooyaart, head of a bond pricing consultancy, estimates borrowers have shaved between one and three basis points off their costs on jumbo bond issues. But he dismisses suggestions that surrogate yield curves will compete with government yield curves. "There has been a lot of hype over surrogate bonds," said Mr Mooyaart. "It would be very difficult if not impossible for a non-government borrower to provide the consistency and regularity of funding of a government."

In the meantime, the outlook for the plain vanilla bond markets remains good. In between crash courses on risk management and credit analysis, fund managers can rest assured that bond prices in the leading government bond markets are more likely to continue rising than to reverse direction.

JP Morgan global bond index

Total return (annual % change)



Source: JP Morgan * December figures

PASSIVE MANAGEMENT • by Philip Coggan

Insult added to injury

Active fund managers are having a hard time justifying their fees

There is no more mortal insult to a fund manager's pride than to suggest you believe in "passive" investment, or index-tracking.

It is rather like telling a four-star chef that you prefer the ready meals from Tesco.

But active managers are having a hard time justifying their fees at the moment.

According to WM, the investment measurement group, Britain's active equity managers underperformed by a full percentage point last year.

The average return from British equities for pension funds was 22.6 per cent last year compared with 23.6 per cent from the All-Share.

It was admittedly an unusual year, with the market driven by a small number of stocks, notably banks and pharmaceuticals.

But this is not merely a short-term phenomenon. Equity holdings of pension funds have also underperformed the index over five, 10 and 20 years.

Active managers have also faced horrendous problems overseas, where they have been consistently too optimistic about Asia and too pessimistic about the US.

In 1997, the average British pension fund achieved a return of 7.5 per cent from overseas assets compared with 19.3 per cent from the FT-S&P World Index, a staggering underperformance of nearly 12 percentage points.

To add insult to injury, active managers have charged higher fees for their poorer performance – around 25-35 basis points compared with the 10 or so charged by the trackers.

Unsurprisingly, the passive school has been gaining ground. Says WM: "While 10 years ago only a very small proportion of equities were held in index-tracking funds, this has now risen substantially and we estimate that around 20-25 per cent of all pension fund UK exposure is now held this way."

There are some arguments in defence of active managers. First of all, theory suggests that the reason they are so unsuccessful is that markets are efficient.

All the available information about a stock is already factored into its share price. Thus no amount of fundamental analysis will ever pay off in the long run.

The only thing which moves share prices is genuine news, which by definition cannot be known in advance.

But for a market to be efficient there must be a host of investors constantly scanning the available information and instantly reflecting it in share prices.

The more passive investment takes hold, the fewer active investors there will be and the less efficient markets will become. To echo Marx, index-tracking sows the seeds of its own destruction.

However, Andrew Skirton, chief investment officer at Barclays Global Investors, thinks the passive school of management has a lot further to go before a problem occurs.

"We believe that only 7 per cent of the overall UK market is index-tracking and there is the potential for that to double," he says.

"In the pension fund market it could reach more than 30 per cent."

A second issue is that active managers tend to underperform when smaller companies have been doing badly, as they have for much of the 1990s.

It seems more likely that markets will be less efficient in the smaller company sector where analysis is much more skimpy, and it would make theoretical sense for managers to concentrate on that area, since they can add value.

Mr Skirton is dismissive on this point as well. He says managers have tended to overweight the smaller company sector rather than use their stock-picking skills to select the right small stocks.

"Many active managers have portfolios of just 60-80 stocks. That means they are bound to have a 0.5-1 per cent weighting in a smaller company, leaving them well overweight compared with the index," he argues.

One significant issue which has arrived from the growth of passive management is the "bubble effect". A good example occurred with the demutualisation of many building societies in 1997.

A roomful of computers: this could be your passive fund manager

Most commentators agreed that the shares rose quickly to overvalued levels, but there was consistent demand for the stock from the tracking funds. They were underweight because the building society shares had been placed in the hands of private investors.

In essence, index managers are "uncritical buyers", willing to pay any price for a stock just because it is a constituent of a benchmark.

A related effect can be seen at the global level, where those seeking to match world indices in the late 1980s would have had to hold more than 40 per cent of their portfolios in Japan.

As markets rise, and potentially become overvalued, index funds must chase them higher. As they fall, and potentially become cheap, they must sell. Thus indexers are condemned to buy high and sell low.

Passive managers mount stout defences to these points. On the individual stock level they argue that, if indexing creates anomalies, active managers should be able to spot them and outperform.

On a global level, they argue that indexing should not be mixed up with asset allocation decisions. Having decided on their country mix, managers can then use tracking funds on a country-by-country basis at reduced cost.

The argument will not be settled easily. Previous WM research has indicated the existence of consistency of fund – and manager – performance, albeit to a limited extent.

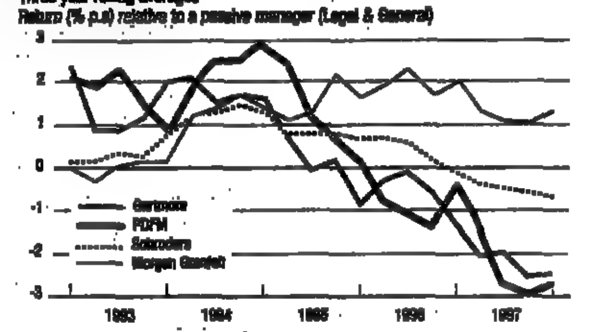
The implication of the research is that some managers bring more skill to bear on the investment performance than others (ask Warren Buffett). But WM adds: "The research is complicated by the fact that manager performance is cyclical."

A bear market ought to provide some scope for active managers to prove their mettle. But few pension funds will be wishing for share prices to crumble just to test the *issue.*

Segregated fund performance

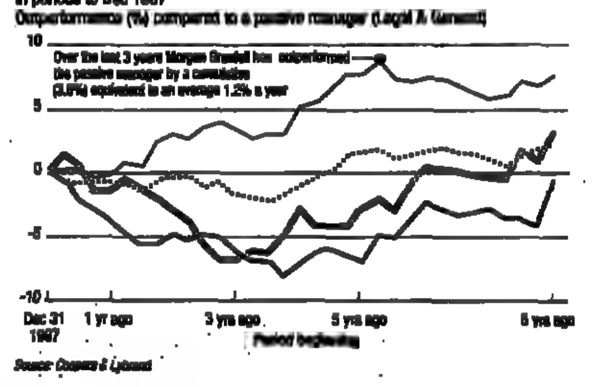
Three year rolling averages

Return (% p.a) relative to a passive manager (Legal & General)



In periods to Dec 1997

Outperformance (%) compared to a passive manager (Legal & General)



TACTICAL ASSET ALLOCATION • by Barry Riley

Search for better predictions continues

Market timing is out of fashion but can still deliver extra performance

Is tactical asset allocation a dream that fails to deliver in the cold light of day? Consultants certainly tend to take a cautious approach.

"There is no great body of evidence to suggest that TAA adds value," says Michael Kinney, of Bacon & Woodrow. And Andrew Dyson, of William M Mercer, warns: "As markets become driven by liquidity rather than value, TAA is a fraught game to be playing."

Market timing, in fact, has generally gone out of fashion. TAA practitioners insist, however, that their arrays of ratios and valuation models can still deliver extra performance, albeit only with constant refinement.

The potential demand is certainly present in Britain as the occupational pension scheme sector drifts towards a new paradigm of centralised asset allocation and specialist managers and responsibility for asset allocation is no longer subcontracted to discretionary balanced managers.

Trustee boards must now set strategic benchmarks. But who will make adjustments to take account of short-term market movements?

If such opportunities are not to be passed up, expert outside advice will be required. The readjustments are often carried out through overlays using the futures markets, a method which avoids the need to interfere with the underlying portfolio assets.

TAA gained an initial foothold in the 1980s on the basis of broad asset class judgments – essentially, equities versus bonds and cash. In 1987, rising bond yields gave a clear early warning of the coming stock market crash.

In the markets of the 1990s, however, it has been hard to make money out of asset class switches of this kind.

The big bets have rarely paid off. But Bill Goodsall, managing director of First Quadrant in London, says small bets can still be worthwhile.

"If you have a large opportunity set there is a useful diversification benefit," he says. "The main opportunities have been in switching between the individual equity markets rather than between the main asset classes."

A similar message comes from Alan Brown, chief investment officer of State Street Global Advisors.

"The programmes work best when you have lots of markets to play with," he says.

In this respect, he admits, the arrival of the euro and the consequent integration of Europe's many national markets poses a threat to the breadth of the opportunity set.

"Country models have worked very nicely within Europe," he says.

The market for TAA mandates in Britain divides between the overtly quantitative managers such as First Quadrant and State Street and the more judgmental players such as Gartmore and Prudential Portfolio Managers.

The differences are not always clear-cut, however. Alan Brown points out that State Street's formula-driven process has been modified by the introduction of sentiment indicators.

Jenny Rodgers, at the Pru, uses models galore, but insists: "Although modelling is the starting point, we aren't quant investors. We use the data to highlight areas which are worthy of further discussion."

Leading tactical asset allocation managers for European pension fund clients

Manager	Home country	Number of funds
Barclays Global Investors	UK/USA	20
Gartmore	UK	13
First Quadrant	USA/UK	10
LGT Asset Management (Frankfurt)	GER	3
Prudential Portfolio Managers	UK	3
State Street Global Advisors	USA/UK	3

Source: William M Mercer — As at 30/06/97

Peter Gale, at Gartmore, insists that judgment is essential. "This is a very exceptional time," he says.

"Quant managers have been hit because their valuation models are ratio-driven. If they include a momentum element, however, that could have performed quite well."

TAA practitioners admit that they cannot rely on automatic signals. The fall in Italian bond yields to levels unknown in recent history has required some modifications to the Italian models, for instance.

Timing, moreover, can be very difficult to get right. "You may be too early in predicting reversal," admits Alan Brown.

But he says that State Street's risk premium-based models have successfully signalled that falling bond yields around the world would justify continuously high equity exposures.

Within the equity asset class, valuation models can be set up to process a variety of market data and will then list the individual country markets in order of attractiveness, perhaps on a daily basis.

Recently, however, such lists have tended to show Japan as cheap and have persistently suggested that Wall Street has been expensive. But overweighting Japan and underweighting Wall Street has not exactly been a way of adding value in recent months.

At PDFM, which is not a significant operator in stand-alone TAA although it follows aggressive TAA strategies in its balanced funds, Paul Meredith, chairman, points to the recent problems with the US equity market.

"It is almost impossible to have a sensible business relationship with the client if asset classes remain out of line with *fair* value for long periods," he says.

This appears to be why Bill Goodsall's First Quadrant is so attracted to the idea of diversification. "With a big opportunity set you don't need big bets," he argues.

He says, moreover, that it is wrong to take bigger bets on the big country markets. "You don't necessarily have better signal quality on the larger markets," he cautions.

PPM also finds that Japan is being flashed up as attractive. But this is only in relation to its history.

The future may be different. Jenny Rodgers is worried about the near-term cyclical problems of the Tokyo market.

The search for better predictions goes on. PPM is looking at EVA-type models which relate the return on equity to the cost of equity.

Ms Rodgers concludes: "The search for the Holy Grail goes on, but it may not come out of a spreadsheet."

INDEX-LINKED BONDS • by Philip Gawith

US joins the elite party and the picture changes

It is not wholly pie in the sky to talk of a new asset class emerging

Last year the US joined the party and France has similar intentions. But countries issuing index-linked bonds still remain a fairly elite group.

The UK, of course, was the trailblazer in 1981. Nearly 20 per cent of the £295bn stock of public debt is now in index-linked form. The figures in other issuing countries such as Australia, Canada, New Zealand and Sweden are much smaller.

Still, the US's entry – with Treasury inflation-protected securities (Tips) – changes the picture considerably, especially given the target of having 20 per cent of government debt in index-linked form. And, with France anxious to establish a euro-zone benchmark, it is not wholly pie in the sky to talk of a new asset class emerging.

However, this is a plot in the early stages of development and readers will need coaxing to turn the pages.

For governments wanting to curb borrowing costs, the picture is quite encouraging: research shows that index-linked debt in the UK has on average provided cheaper funding than conventional debt since it was introduced in unrestricted form in 1982. Realised inflation has been on average 1.7 percentage points below the rate implied by the yield differential between conventional and index-linked debt.

And with governments increasingly confident of their ability to hold inflation low, the incentive is there to issue higher portions of their debt in index-linked form. Peter Price of Hill Samuel Asset Management, notes: "In the UK index-linkers have been an excellent source of funds as inflation has continuously come in lower than expected."

The only snag, of course, is that most investors have antithetical interests. For a small number of pension fund managers who, on the liabilities side, have contractual obligations to revalue with inflation, they are the perfect vehicle. But for those with a more discretionary brief, they have hardly been a compelling investment proposition. According to the 1998 Barclays Capital Equity/Gilt Study, over the 1983-97 period, average real returns per annum for index-linked gilts were only 3 per cent. This compares to 5 per cent for cash, 7 per cent for conventional gilts, and 13 per cent for equities.

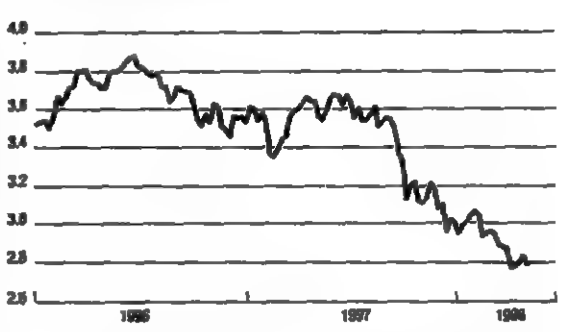
Figures for 1992-97 are more forgiving, but nevertheless investors have been asked to pay a high price for security, especially while conventional bonds and equities have profited from a powerful bull run.

The US experience has also been less than auspicious. Since January 1997 when Tips were first launched, yields on 10-year treasuries have fallen by more than 100 basis points while yields on Tips have increased from 3.45 to around 3.8 per cent.

Is the outlook from here any rosier? Taking a long-term view, a case can be made. In the UK, index-linkers offer a real yield of around 3 per cent, while conventional gilts offer a yield to maturity of about 6 per cent. Using a long-term inflation assumption of 3 per cent, they are also offering a real return of around 3 per cent. But this includes a risk premium for the risk that inflation rises, so the actual figure is lower than that offered by index-linkers.

Yield on UK index-linked gilts

Index-linked 5% over 5 years gilt (%)



Source: Datastream/ICV

The dividend yield on equities, meanwhile, is around 2½ per cent. Assuming real dividend growth of 2½ per cent per annum, the real return on offer is about 5 per cent. The 2 percentage-point difference may compensate for inflation and growth risks, but index-linkers do not emerge too badly from these comparisons.

The snag, however, is that most money is allocated on the basis of returns over period of two to three years, not the long term. Ken Forman, strategist at Standard Life, notes: "For people making tactical decisions, it is difficult to make the case that index-linked is the place to be, particularly when the market lacks depth." The latter point refers to market illiquidity, which can make position-taking costly as prices move against the investor when large trades go through.

While UK investors may consider equities expensive, there is still a decent chance of a rally in conventional bonds, especially if the UK enjoys a convergence rally ahead of expected entry into monetary union. And index-linkers are not the only option for the risk averse. There is also cash, where returns are fairly attractive considering the reasonable inflation outlook.

A better bet might be to look across the Atlantic where US Tips offer good value. Yields are anomalously high compared to the UK – 3.8 per cent, against 2.8 per cent, having actually risen over the past year while UK real yields have fallen around 100 basis points. Moreover, spreads against conventional bonds are very tight: around 225 basis points at the 30-year level, and 185 basis points at the 10- year level. The conclusion, a fairly bold one, is that investors expect inflation to be 2 per cent or less for the next 30 years.

The fact is that for most fund managers, who operate on a medium term time-frame, only a dramatic upward revision of inflation expectations would make index-linked bonds a really attractive asset. But in a world where fiscal and monetary probity have such widespread acceptance, even inflation bears have trouble conjuring up that scenario.

Doug Jones, senior fixed income manager at Gartmore Investment Management, comments: "Index-linked bonds will come into their own when the market focuses again on value. But they can't compete in this environment."

CONSULTANCY • by Jane Martinson

No answer to this bug

The pace of consolidation has accelerated over the past few years

If buzzwords tend to spread like viruses through the language of industry, globalisation is a bug suffered by the *pension fund consulting* business.

Nourished by a combination of increased consolidation and greater investment diversification among clients, the bug is beginning to look incurable.

Arguments for globalisation rely on changes in the industrial world at large and on the increased demands for consistent and reliable service from a diverse group of clients.

Consultants are also driven by the demographic *and political factors spurring* forecast growth in the global pension fund industry over the next few years.

The trend started in earnest with a profusion of mergers and alliances over the past three years and has been driven onwards by the need to expand geographically and invest in systems and people to provide a global product.

John Webster, a partner at Greenwich Associates, the US research group, believes the push for globalisation is partly driven by these economies of scale.

"*Manufacturing* investment manager research is quite difficult, and if you can feed it to various different people it is more attractive," he says.

This scenario involves consultants salivating over the chance of advising Ford on its pension fund at Dagenham in Britain once they have established a relationship based on advising its workforce in Detroit, for example. Rolling out the higher margin product to a wider pool of clients is the *basic tenet of this industrial* argument.

Consultants have also argued that the trend is a natural development from the similar shift in the corporate world.

Matthew Demwell, a spokesman for the Association of Consulting Actuaries, says: "At the moment big is beautiful in corporate terms and it's fashionable. Corporates therefore want their consultants to follow that."

He sees the faster pace of change as consultants race to steal a march in the global marketplace as a *reflection of the world at* large. "The pace of consolidation has accelerated over the past three or four years as it has in business generally."

As well as reflecting the fashion among clients, the argument for globalisation is strengthened by changes in the asset management business itself.

Over the past year some of the world's biggest firms have merged or taken over smaller rivals.

These have typically *involved cross-border deals* such as the £3.1bn takeover of Mercury Asset Management, Britain's leading pension fund manager, by Merrill Lynch, the US investment bank, or the merger of Swiss Bank Corporation with Union Bank of Switzerland which brought together the institutional asset management operations of SBC Brinson in the US and PDFM in Britain.

Such pairings have helped to enhance the value of multinational research facilities offered by the largest consultants. As Andrew Dyson, a *British-based investment* consultant at William Mercer, one of the world's largest firms, says: "When UBS and SBC suddenly decide to merge, what we think Gary Brinson is going to do is critical for our view of PDFM.

"It helps to be able to talk to someone in Chicago."

Roger Urwin, head of the investment practice at Watson Wyatt, the largest consultancy in Britain, says: "In this business you don't have to be global to do a good job, but increasingly it's quite a *competitive advantage* because it enables you to have a first-hand knowledge of managers in different countries.

"I think pension funds have become quite concerned about working with investment consultants which don't have the depth in research."

Merger: Marcel Ospel of Swiss Bank Corporation and Mathis Cabiallavetta of Union Bank of Switzerland

Despite the weight of argument from all corners of the consulting world, however, only a handful of firms have made headway in more than one of the world's largest pension fund markets to date.

Most have a bedrock of support in local markets which they understand and where they have grown up with local mores.

John Webster at Greenwich believes that this will continue despite increased consolidation in the consulting industry. "These people have got to have local businesses because there are local rules," he says. "That is unlikely to change."

But increased globalisation is expected to bring about some changes. One of these is an increased emphasis on performance measurement.

As consultants become more powerful with an increasingly global reach the *demand for greater account*ability, and perhaps global standards, is expected to grow.

Matthew Demwell at ACA says that more formal processes to "check how you are doing" will become the norm as organisations become larger.

"I have been amazed for years that the fund managers did not set up their own monitoring service to measure how well the consultants were doing," he says.

The largest consultants already argue that they have adapted to such criticism. Watson Wyatt introduced a performance measurement device five years ago which aims to chart the performance of its top-rated managers, whether or not they were actually chosen by clients.

Other managers have adopted different approaches to complaints about who measures the fund measurers. Frank Russell, the consultant based in Tacoma, believes that the industry will become more like the managers it recommends by offering a benchmarked service with a manager of managers structure.

Len Brennan, head of the group's international *operations*, says: "My theory is that consultants will look more like money managers and money managers will look more like consultants."

Russell manages more than $38bn in the US in its multi-manager funds. This higher margin product has the advantage, says Mr Brennan, of being directly measurable.

The company formed a joint venture with Société Générale, the French bank, to develop the product in continental Europe earlier this year. It is planning a similar move into Britain.

Such a development has few converts in the mainstream British business. Ross Russell, chairman of the pensions committee at the ACA, said: "Most British consultants would shy away from the Frank Russell model.

"*It is difficult to do both* independent advisory work and sell your own products."

US providers are hoping that the British consultancy market, now going through some agonies of its own because of the recent poor performance of the largest fund managers, will soon be willing to listen to new ideas.

As the industry jockeys for position and deals with the stresses of managing increasingly global companies, the sense of change is likely to grow.

SHAREHOLDER VALUE • by Tony Jackson

Obstacles may be more deep-seated than expected

The pressure is on Japanese and Continental companies to conform

From the vantage point of Wall Street or the City of London, the doctrine of shareholder value can easily seem an established truth. For US and UK companies, certainly, value-based management has become something of a cliché.

Granted, the argument runs, there may still be patches of resistance in Japan and Continental Europe. But no-one wants to invest in Japan now anyway: and as for the Continent, all that will be taken care of by the advent of the euro.

Well, maybe. But it would be as well to recall two things. First, the obstacles to shareholder value may be more deep-seated than they appear. Second, even in the Anglo-Saxon economies, it remains to be seen how far companies' conversion to value-based management will survive the next real bear market.

There is no question that the pressure is on. CalPERS, the Californian pension fund giant, has $4bn invested in Japan and $2bn in France, and has published guidelines for corporate governance in both countries.

The Japanese market, according to CalPERS' chairman Charles Valdes, "will become more attractive to investors only if it adopts a corporate governance standard that is more representative of shareholders' interests". France, meanwhile, "needs to begin meeting market expectations and requirements", and must develop "a greater focus on the role of shareholders when defining the corporation's interest".

For a US institution to chastise Japan might seem cheeky, considering the extent to which the value of its own US investments is propped up by Japanese cash flow. Nor is it clear that Continental Europe will be a pushover.

Marion Collins, a corporate governance specialist with Barclays Global Investment, says: "The restructuring needed in a country like Germany is absolutely fundamental. The banks are often still the shareholders, and are unlikely to pull the rug on companies where they have a double interest."

Nor, Ms Collins points out, is there any incentive for employees to change their attitudes, especially if – as often on the Continent – their pensions are unfunded. Not only do they have no vested interest in the stock market: they may feel that the more cash goes to shareholders, the less is left for them in retirement.

Nor is it easy, in the case of some Continental companies, to unpick the rhetoric from the reality. Last month Ulrich Hartmann, head of the German industrial giant Veba, was in London addressing an investment audience. First, he made plain he was keen to attract investment capital from London and New York. Second, as one might therefore expect, he affirmed his belief in the primacy of shareholders. But he was also robust in defending Veba's somewhat unfashionable conglomerate status, which takes it from speciality chemicals to distributing household electricity.

One should not be too gloomy about this. A senior Brussels bureaucrat recently remarked that some Continental company bosses now talked constantly of their share prices, whereas five years ago they could have put a figure to them. He himself, he remarked, was putting his savings into Continental equities as a result.

And indeed, the euro will expose shortcomings in governance, as will the build-up of funded pension schemes. A French company, for instance, may well feel politically constrained in confronting its workers. But what happens when its pension fund can invest freely across the euro zone, and can pick stocks which give shareholders a higher priority than the company does itself?

But the big question remains: how far the vogue for shareholder value is an irreversible process, and how far it is the product of a 16-year bull market.

This is something about which value-conscious companies and their advisers have already thought. Suppose the equity market does collapse, they say. In that case, those companies least attentive to shareholder value will be punished more severely.

No doubt. But there is a deeper issue. How far does companies' conversion to shareholder value reflect the realisation by managers that stock options are the best way to make a fortune? And if stock becomes a depreciating currency, can managers be relied upon to identify so absolutely with shareholders' interests?

In the US, one solution to this is already proposed. In Silicon Valley especially – but not exclusively – it is assumed that come the bear market, managers' stock options will simply be repriced. That way, their incentives will remain intact, and shareholder value will still rule.

It remains to be seen how far this will appeal to the institutions, which will be obliged to fork out extra stock to keep managers happy while facing large book losses themselves. And if managers are not allowed this, what other means will the institutions have of retaining their loyalty?

But with the Dow and the FTSE at around 9,000 and 6,000 respectively, this is perhaps too gloomy. The bear market is not upon us yet. Nor is there any question that the pressures that have produced the revolution in attitudes to shareholder value are still very powerful.

Not least of these is that illustrated by the CalPERS example. Around the world, the US corporate model is in the ascendant, and US corporate governance along with it. At some point, doubtless, both will be challenged, whether from a resurgent Asia or a unified Europe. In the meantime, though, it is a good time to be a portfolio investor.

CZECH REPUBLIC: INDUSTRY & INVESTMENT

The economy has been stabilised but reforms are needed to revive growth and investment, write **Stefan Wagstyl** and **Robert Anderson**

Counting the cost of the golden years

After the party, the hangover and the bill. The Czech Republic is paying the price for the political and economic mistakes made during the golden years of the early 1990s when the country's economic miracle was the envy of eastern Europe.

The economy is stagnating, industry is burdened with debt, and unemployment, though low by international standards at just under 8 per cent, is rising rapidly. Foreign investors, who once crowded into Prague, have gone elsewhere, put off by poor economic prospects and by the stench of financial scandal.

The Czech Republic remains a much wealthier and more economically developed country than most others in eastern Europe, including neighbouring Poland and Hungary. But Prague has this year started negotiations with Brussels over EU membership in a worse economic condition than it could have imagined even 18 months ago.

The government has succeeded in stabilising the economy following last year's currency crisis. The caretaker administration of Josef Tosovsky, the central bank governor turned interim prime minister, also knows what needs to be done next in order to revitalise growth – including rapid bank privatisation, legal reform and the reorganisation of capital markets.

But with a general election looming in June, the government lacks the mandate to take significant long-term decisions. Moreover, there is every sign that the election will fail to produce a clear result.

Vaclav Klaus, prime minister from 1992 and '97 and architect of the period of rapid growth, remains an important political force. But he is too closely linked with financial mismanagement to win decisive support from voters.

The opposition Social Democrats could emerge as the biggest party – but may only form a government in a coalition with smaller groupings.

Whatever happens, Czechs seem unlikely to elect a government with a strong mandate. As Zdenek Somr, president of the economic chamber of the Czech Republic, the chamber of commerce, says: "In the future nobody will be able to rule with the same power as Mr Klaus did because nobody wants to put so much confidence in the government any more."

At first sight, the Czech Republic offers little evidence of economic distress. The picturesque streets of Prague, the busy international exhibition halls of Brno and the prosperous-looking towns and villages with their freshly-painted houses all bear witness to a prosperous country.

Living standards are among the highest in the former Communist bloc. With only 4 per cent of output in agriculture, the country is not burdened with the problems of an inefficient farming community which hold back economic modernisation elsewhere, notably Poland.

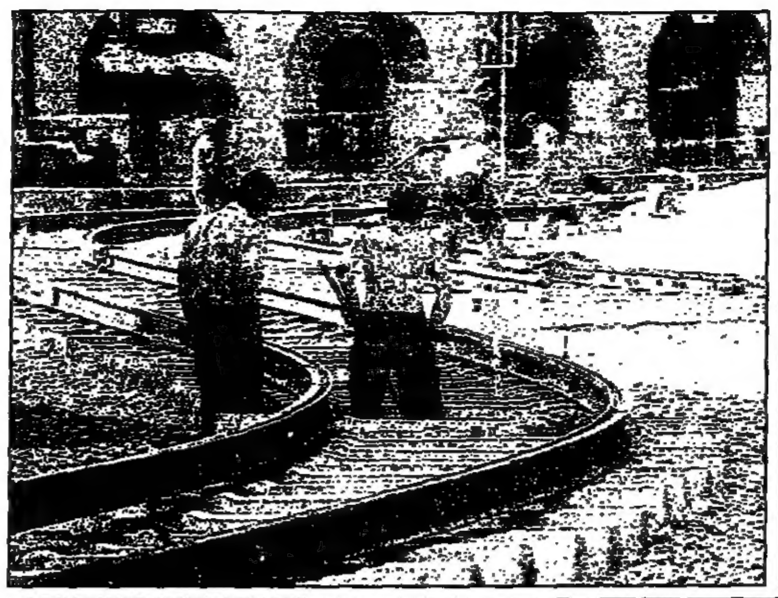
The low unemployment rate keeps poverty at bay. In Prague it is virtually zero – an achievement matched by few European cities of its size.

However, just below this healthy-looking surface, problems lurk like dangerous bacteria. They are to be found in the difficulties companies have in raising bank finance, in the reluctance of entrepreneurs to seek outside capital and in murky ownership structure of much of industry.

Too many Czech companies trust each other too little to do business effectively. As Mr Alain Pilloux, director for Poland, the Czech Republic, Slovakia and the Baltics at the European Bank for Reconstruction and Development, says: "The Czech Republic must restore the rule of law as far as financial operations are concerned."

The roots of the problem lie in the laissez-faire policies pursued in the early 1990s by Mr Klaus, in which entrepreneurs were given free rein – often at the expense of other parties such as creditors, investors and customers.

To make matters worse, Mr Klaus's mass privatisation programme left ownership of much of Czech industry in the hands of investment fund managers and of banks. With few rules governing the relationships between ownership and management control, the opportunities for fraud were eagerly exploited by unscrupulous financiers – Czech and foreign alike.




Josef Tosovsky's administration must get reforms in train in a country once the envy of eastern Europe

Sarah Murray (top left), Ann Vitale (bottom)

To be fair, Mr Klaus recognised the problems towards the end of his administration which ended when he was forced to resign last autumn over a political funding scandal linked to privatisation. He started work on reform which the caretaker government has begun to put into place – including the establishment of the Securities Commission, the government's markets watchdog, and laws to control investment funds and the investment activities of banks.

More measures are in the pipeline, such as more effective reporting procedures in the stock market and the possible creation of a takeover panel. Mr Ivan Pilip, the finance minister, says: "We have made a start."

However, one key reform will have to wait until after the election – the privatisation of the three big banks still in state hands – Ceska Sporitelna, Ceskoslovenska Obchodni Banka and Komercni Banka.

The government would like to see them privatised as soon as possible – by selling strategic stakes to international banks – without any addition to the Kč160bn crowns of official financial support already given to the banking industry. But investment bankers are not sure whether foreign banks can be tempted on such terms.

Meanwhile, the opposition Social Democrats warn that if they form the next government they would delay privatisation until the banks were restructured to make them more effective. But they would not inject any more public money.

Even if privatisation is completed in the next year or so, much work will remain to be done before confidence is restored in Czech financial markets. Foreign bankers say that reforming institutions is easier than reforming attitudes. Jan Mueller, chairman of the newly-established Securities Commission says he knows that foreigners think of the Czech Republic as a "den of thieves" and changing this view could take three to five years.

Meanwhile, the government is belatedly launching a campaign to attract foreign direct investment with tax-breaks and other financial incentives in recognition of the role of such aid in Poland, Hungary and other neighbouring countries.

The picture is not universally gloomy. Volkswagen, the German carmaker, is widely regarded in the Czech Republic to have done a first-class job in revitalising Skoda Auto, the carmaker, and its component suppliers. The motor industry is leading a rapid increase in exports which rose 45 per cent in the first quarter, compared with the same period of last year.

As Mr Somr of the chamber of commerce says: "Once capital is put into place, a company's prospects are good. Czech workers are very capable. Many international companies say their Czech subsidiaries are their most successful."

A recovery in economic growth from the this year's forecast level of 1-2 per cent would do wonders for attracting interest from foreign investors. Real wages are falling for the first time since early 1990s – suggesting that employees are responding to rising unemployment by developing a more realistic attitude to pay rises.

There is also evidence that financial pressures are forcing managers to take painful but necessary decisions such as moves to cut jobs. For example, Ceska Sporitelna last year closed 600 of 1,700 branches with the loss of 1,800 staff. However, it may have further to go as it retains a payroll of 17,500.

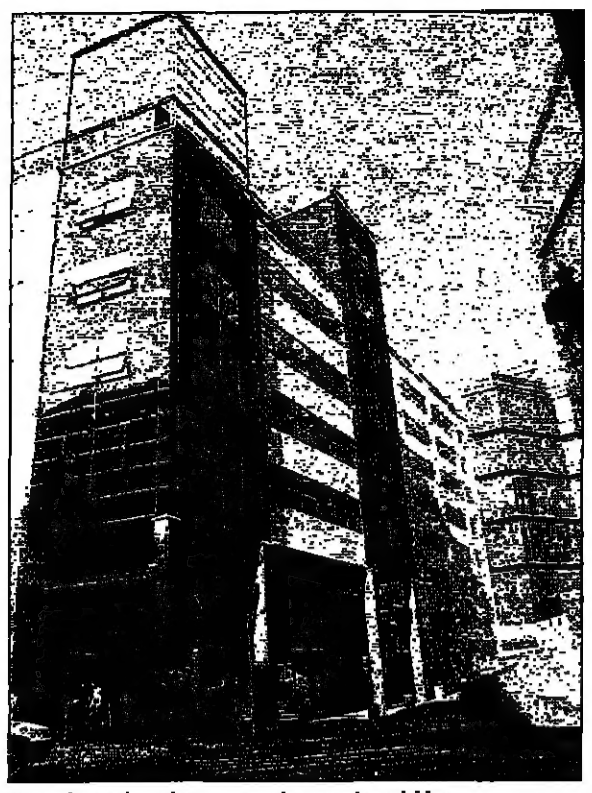
But there are limits to rapid action when financial resources are so limited. Banks will remain short of funds until they are recapitalised with the help of foreign capital.

Companies will only turn to the stock market, when entrepreneurs learn to trust outside investors. As Zdenek Bakala, chairman of Patria Finance, a Prague investment bank, says: "The minefield which was laid by the Klaus government is going to hold this country back for a number of years."

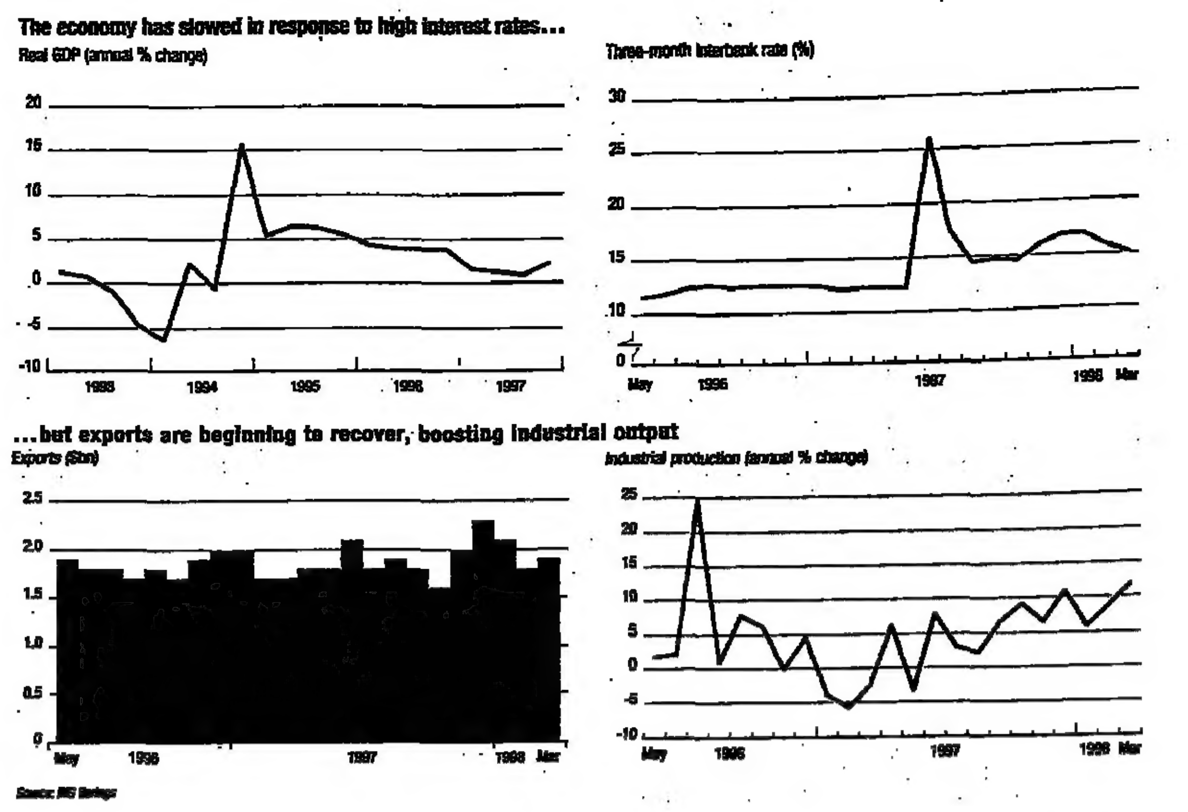
ECONOMY • by Stefan Wagstyl

Prosperous postcard view belies true picture

Life seems comfortable so really painful decisions are being delayed



Prague's stock exchange ... prices are languishing



At first sight, the Czech Republic is the picture of prosperity. The crowds of foreign tourists pouring into Prague every day and spending money. The well-kept towns and villages, with their freshly-painted houses and newly-installed double-glazing. One of the lowest unemployment rates in Europe.

But underneath, all is not well in eastern Europe's wealthiest country. What was once hailed as the "miracle" economy of the post-Communist world is struggling with slow growth, high inflation and serious structural problems. Many of the difficulties are the legacy of the laissez faire policies of Vaclav Klaus, the former prime minister, who was forced to resign last autumn.

While the government has successfully stabilised the economy following last year's foreign exchange crisis, progress towards structural reform has been fairly slow. The caretaker administration, which took over from Mr Klaus, is not in a good position to make drastic changes since its term expires at the general election in June.

"Structural reform proceeds slowly so that productivity improvements and output growth will remain subdued," says the Organisation for Economic Co-operation and Development in its latest report on the Republic.

The OECD expects that the economy will this year grow only 0.9 per cent, even less than the 1 per cent recorded last year, when the country had to cope with floods as well as the turmoil of the currency crisis.

The government's statistical office is slightly more optimistic with a 1.4 per cent target (recently reduced from 1.9 per cent), but this is well short of the recent peak of 6 per cent recorded in 1995. Some business people insist that the statistics exaggerate the gloom.

Alexander Winkler, chief executive of GiTy, a fast-growing maker of computer connections, says: "I think the picture of the Czech economy that everybody talks about is much worse than the reality. People should be more positive."

However, Mr Winkler is in a minority. Keith Brandon, head of the Czech and Slovak operations of Tesco, the British supermarket chain, says: "We can feel the slow down in our stores."

But the outlook is not all bad. Last year's devaluation of the crown has boosted exports, which rose 10 per cent last year and are expected to rise a further 6.5 per cent in 1998, despite a recent rise in the currency. Leading is Skoda Auto, the carmaker in which Germany's Volkswagen has a controlling stake, and its suppliers.

As a result, the OECD expects the current account deficit to fall from last year's danger level of 7.6 per cent of GDP to 6 per cent in 1998 and under 4 per cent next year. This is still at a level which could leave the Czech Republic vulnerable to international currency shocks, but at least there is progress. As Ivan Pilip, the finance minister, says: "Of course there are still difficulties but the movement is in the right direction."

Also, while Mr Klaus allowed great freedom to private companies and to semi-state organisations like partly-privatised banks, government spending was generally kept in check. The total public deficit last year was 2.7 per cent of GDP after allowing for emergency flood spending. Mr Pilip says that this year the government is on target for 1-1.5 per cent, less than half the level demanded of would-be Euro members under the Maastricht Treaty.

However, the government is having less success in dampening the fires of inflation stoked under Mr Klaus partly by a rush of foreign investment and by excessive consumption, often fuelled by easy profits in the country's scandal-ridden financial markets.

Despite the sharp increase in interest rates pushed through last year, retail price inflation is rising from 8.5 per cent in 1997 to an annual rate of more than 13 per cent so far this year. The figures include sharp increases in government-controlled rents and utility prices which are being raised to market levels. Although deeply unsettling to many poorer Czechs, these rises are a necessary element of the development of the market economy.

After stripping out regulated prices, net inflation is still running at about 8 per cent, compared with the central bank's end of year target of a maximum of 6.5 per cent. Pavel Kysilka, the acting governor, says interest rate changes will depend on the inflation outlook. A big force behind inflation has been wage increases, which have consistently exceeded productivity improvements in the 1990s. But there are signs of change, under pressure from a modest rise in unemployment.

Employers say staff turnover is falling, even in Prague, where the official jobless rate is close to zero. The national rate is set to double from 3.1 per cent in 1995 to more than 6 per cent by the end of 1998, as many big companies respond to the economic slow down with the first serious staff cuts. For example, Ceska Sporitelna, the state-controlled bank which employs 17,500, last year closed 600 of 1,700 branches.

Rationalisation will help raise efficiency and export competitiveness. But it will not of itself solve the Czech Republic's underlying difficulties. The main burden is the inability of the banks or the capital markets to provide industry with finance.

Mr Klaus's mass privatisation programme has left the country with a confused ownership structure in which control over many industrial companies is shared between the government, banks (state-controlled and private) and investment funds, some of which have a bad reputation. Meanwhile banks, which lent freely in the early 1990s, are saddled with bad debts and charge high interest rates. Foreign investors are reluctant to wade into the quagmire until the rules are made clearer and the financial system is made more transparent.

The result is that Czech companies are starved of capital and cannot properly exploit the undoubted skills of Czech labour or their market opportunities.

The answer is wholesale reform in the financial markets and in the banking industry, as other articles in this survey show. Also, as Mr Kysilka of the central bank says Czechs now realise that only strategic foreign investors have the capital and the skill to properly modernise many big companies, including banks.

Alain Pilloux, director for Poland, the Czech Republic, Slovakia and the Baltics at the European Bank for Reconstruction and Development, says that the Czech Republic's problems are temporary because "there is a willingness to tackle problems."

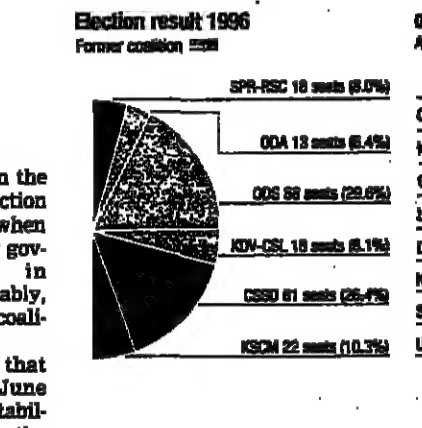
That is undoubtedly true with parties across the political spectrum demanding financial reform. But what is missing is any great sense of urgency. Perhaps, economic life is still a little too comfortable for Czechs to start taking really painful decisions.

POLITICS • by Robert Anderson

Limbo likely to continue

In recent polls many thought life was better under communism

Election result 1996
Former coalition



Opinion polls
April 1998

	STEM	IVVM	SOFRES-FACTUM
CSSD	23.7	20.9	25.2
KDU-CSL	9.1	8.6	8.1
ODS	15.9	11.9	12.9
US	12.7	12.9	11.4
DZJ	4.9	5.9	2.9
KSCM	10.7	10.6	8.5
SPR-RSC	8.7	5.6	8.5
Undecided	18.7	21.0	12.8

The Czech Republic is in the throes of a shadow election campaign that began when Vaclav Klaus's minority government collapsed in November – and, arguably, even in 1996 when his coalition lost its majority.

The early elections that have been called for June 19-20 could end the instability and bring to power the first left-of-centre government since 1989.

But they seem more likely to continue the deadlock as the electorate, though disillusioned with the right-wing parties that have ruled since 1992, cannot yet bring itself to put its trust in the left-wing alternative.

Since the end of last year the country has been in a state of limbo under the caretaker government of Josef Tosovsky, the central bank governor. It has only been able to carry through existing legislation and prepare some proposals for the next administration.

Mr Tosovsky, who has said he has no intention of remaining in politics, has kept a low profile which appears to suit the subdued mood of the electorate.

Czechs are deeply disillusioned. The Czech economic model has been shown to be deeply flawed, living standards are stagnant and politicians are despised for their bickering and alleged corruption. In recent polls more people thought life was better under communism.

This bitter mood should have benefited the Social Democrats (CSSD). Their leader, Milos Zeman, has built the party up as a credible force by often intemperate attacks on government policy and ethics.

However, the party hit a ceiling of around 30 per cent in opinion polls in February and has since dropped around five points to a lower figure than it won in 1996.

The party's problem is that the resignation of Mr Klaus over a political funding scandal removed him as a target. After his party moved into opposition and split, the Social Democrats were thrust into the spotlight. This has not been a comfortable experience.

The party's inexperience has been demonstrated by the way it has failed to speak with one voice about its programme or to answer opponents' attacks effectively. This is vital because Mr Zeman is routinely pilloried by the largely right-wing media for his judgment, verbosity and personal behaviour.

This points to a deeper problem the party faces – making the left acceptable after 40 years of communism and six years of right-wing dominance. "The word socialism does not and cannot appear anywhere in our programme," says Jan Kavan, a potential foreign minister. "It is very difficult to use the word here.

"We have a problem of convincing people that we have the capability of being in power. We have had to create our own experts in the wilderness."

Paradoxically, the implosion of the right has harmed the Social Democrats' chances of forming a government. Its potential allies, the Christian Democrats (KDU-CSL) from the former government, have failed to pick up votes from the other centre-right parties and remain confined largely to their Catholic farming redoubt in southern Moravia.

Instead, the Freedom Union, (US), which broke away from Mr Klaus's ODS, has been the main beneficiary. It has taken votes both from the ODS and the ODA, the third member of the former coalition which looks certain to fall below the 5 per cent voting threshold after its own funding scandal.

The ODS rump and the Freedom Union are now winning more support than the united party was.

"The splintering of the right has not helped the left," says Mr Kavan. "The emergence of the Freedom Union has created the possibility of us not forming a government".

Some polls have even indicated that the old coalition could win re-election. But a Social Democrat-led government is still the most likely outcome, with the Christian Democrats and, if it gains enough votes, the Pensioners party (DZJ) as allies.

But it is far from clear that this combination will have a working majority because of the strength of two untouchable extremist parties, the hardline Communists (KSCM) and the far-right Republicans, (SPR-RSC), who are thriving on the present social malaise.

"As long as the extremists take up to 20 per cent of the vote it is hard to create anything stable," says Jiri Pehe, President Vaclav Havel's political adviser.

If the Social Democrats fall short, the Freedom Union has hinted that it might be prepared to give the government temporary backing.

However, Ivan Pilip, the Freedom Union finance minister, cautions: "I cannot imagine forming a stable government with the Social Democrats. Our conditions would be very tough."

Nor are the Christian Democrats likely to be doughty allies. Their leader, Josef Lux, has won a reputation as a political intriguer and would need to strike independent positions to protect his back from other centre-right parties.

The election could therefore lead to further instability at a time when the country desperately needs stable government to recover momentum in its transition towards European Union membership.

Unfortunately, the lack of any history of alternation of governments has meant that the parties are too polarised to consider a grand coalition.

"The parties are like sects. They are unable to talk to each other," says Mr Pehe.

This polarisation is more of personalities and ideologies than policies.

Social Democrat economic policy has been put together by sober-suited business-friendly figures such as Jan Klacek, the new head of Investicni a Postovni Banka, Jan Vrba, a former industry minister, and Ivo Svoboda, a former deputy finance minister. The party certainly intends to go slower on privatisation and run a higher budget deficit than the right, but it should be even tougher on the notoriously corrupt capital markets.

If the party is finally given the chance to govern it is bound, however, to be a testing experience in a difficult political and economic climate. "It will be our first attempt at governing and it will be harshly judged," says Mr Kavan. "If we fail it could be a very long time before the next Social Democrat government."

CAPITAL MARKETS • by Stefan Wagstyl

'There are no quick fixes'

Reform of the scandal-ridden system is a priority for the politicians

"To set up a business is easy," says Zdenek Somr, president of of the Czech national chamber of commerce. "But to run it without capital is almost impossible."

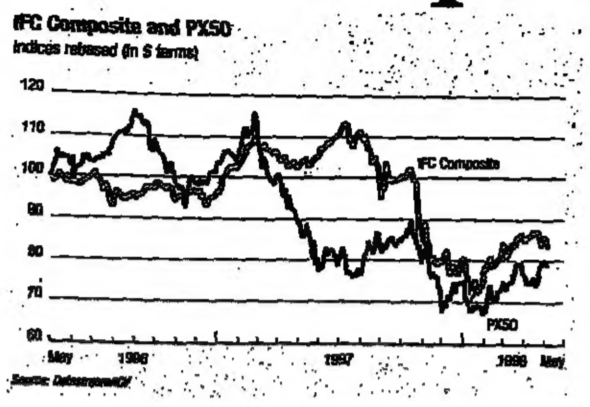
The Czech Republic's greatest economic challenge is to turn its illiquid and scandal-ridden capital markets into a proper source of finance for its companies.

The present phase of high interest rates has crippled many companies, large and small, and brought home the urgent need to restart the supply of equity capital and long-term bond finance.

Foreign investors, who once rushed to the Czech Republic and could still provide some of the funds needed, are calling for reform before they look again at Prague's financial markets. They might be less demanding if the economy were to pull out of its stagnation and equity prices start recovering. For now that seems a distant hope.

Zdenek Bakala, chairman of Patria Finance, a Prague investment bank, says: "I don't see much prospect of a return of foreign (portfolio) investors."

Prices on the Prague Stock Exchange, which has a capitalisation of Kcs680bn have languished in the past year. There has been only one small new issue.



Only bond issues have shown a little life, with the government, banks and a handful of big industrial companies accounting for most of the activity.

In the past year the market value of bonds listed on the exchange rose 24 per cent to Kč166bn, or 24 per cent of its capitalisation, reports Atlantik FM, a leading broker.

Stung into action by last year's economic crisis, the government has started the long job of rebuilding confidence in the capital markets through various reforms and the launching last month of the Securities Commission, the markets watchdog chaired by Jan Müller. . But it will take time because it is not only laws and regulations which must change but also economic structures and commercial attitudes.

Gerard Sanders, chief counsel at the European Bank for Reconstruction and Development, says: "There are no quick fixes.

"Raising laws to international standards is easy. Raising institutions takes time. Changing the culture is even more difficult, but it is crucial."

The origin of the trouble is the confused ownership structure which emerged from the mass privatisation programme of the early 1990s promoted by Vaclav Klaus, the *laissez-faire* prime minister who resigned late last year.

Millions of Czechs were sold vouchers for shares in state-owned enterprises. Financiers grabbed control of substantial chunks of companies by inviting their fellow citizens to pool vouchers in national investment funds. Many were run honestly but others were used for the self-enrichment of the managers. Some of the worst abuses were curbed, but Mr Klaus continued to give financial companies a very free hand.


Jan Müller, Prague's watchdog

Among the biggest beneficiaries were the large state-controlled banks, which have built up commanding positions by operating as both lenders to industry and substantial shareholders through in-house investment funds. Due to a lack of rules and inadequate enforcement, 90 per cent of trading in Czech equities and bonds is done off the Prague Stock Exchange.

The interim government has attacked the problems with measures led by the establishment of the Securities Commission, which has the power to investigate alleged wrongdoing and impose penalties.

Parliament has passed a law to force the national investment funds to become open-ended so that they sell big portions of their holdings. It has also ordered banks to separate their asset management businesses from their lending operations and reduce the maximum stakes they can hold in industrial companies to 50 per cent.

The aim is to introduce greater transparency and to improve the functioning of banks by reducing the scope for conflicts of interest.

However, there is no plan to abandon the principle of universal banking, which Czech officials and bankers say works well in western European countries.

The government and the Securities Commission are planning to overhaul stock exchange rules, including the introduction of full reporting of all trading.

The goal is to capture more information on more of the 90 per cent of equity transactions which now takes place off the exchange. Eventually, the authorities would like to ban off-exchange dealing altogether.

There are also tentative plans to establish a takeover panel, which would help to shed light on murky ownership battles fought among shareholders.

Even more significant are long-running plans for the full privatisation of the three state-controlled banks – Ceska Sporitelna, Ceskoslovenska Obchodni Banka and Komercni Banka.

The caretaker government is making some pre-privatisation preparations. But the decision will be left to the election victors.

The centre-right parties say they will press ahead with reform if they win. The Social Democrats are less committed to rapid bank privatisation but plan to sell the state's stakes at some point. Its leader, Milos Zeman, wants to punish "economic criminality."

Richard Wood, head of Wood & Co, a Prague investment broker, says the government is now on the right track. "Things have started to happen, but they have started late," he says.

"Everybody knows who the bad guys are. They have got to get them somehow."

PROFILE Tesco

UK retailer makes up for lost time

Tesco is the UK's biggest supermarket retailer but it has been slow to expand overseas. It is now making up for lost time and the Czech Republic is playing a big role in those plans.

"Until five years ago we weren't in an overseas country," says Keith Brandon, the company's chief executive for the Czech Republic and Slovakia.


Tesco adapts to its market by selling locally-made goods Ann Vitale

Then in quick succession the company bought a chain of stores in Hungary in 1994, another in Poland in 1995, and a chain of 13 previously state-owned city department stores in the Czech Republic and Slovakia from the US retailer K-Mart in 1996 for £77m.

"We tried to find entry vehicles because we wanted to hit the ground running," says Mr Brandon. "We happened to find Hungary first and we are two years ahead there."

After bailing out of France last year, the 90 or so stores in central Europe are now Tesco's only operations outside the British Isles.

Last year it recorded revenues of Kč4.85bn in the Czech Republic, making it the country's fourth biggest retailer, and it now employs 2,500 people.

Tesco has adapted itself to the Czech market by selling a range of mostly locally-produced products. Only one third of the space is occupied by food, a contrast to the UK where it represents the bulk of its revenues. Partly this was the nature of the stores it bought but it also reflects difficulties in sourcing good food supplies.

But Tesco, which mainly operates large city supermarkets in the UK, has announced ambitious plans to invest £350m in the region over the next three years by building six out of town hypermarkets per year.

It already owns two hypermarkets in Hungary and will open one in Prague and one in Brno this year, and another in Prague in 2000. Afterwards it expects to open two or three a year in the Czech Republic, with some conceived as mall developments, and hopes to double current turnover by 2000.

"We rumbled the fact that hypermarkets were working in the rest of Europe and that it is the UK that is out of line," says Mr Brandon.

"It is more likely that the Czech Republic will develop like the rest of Europe. The development of shopping will be telescoped here and we are aiming straight for where the market is going."

The Czech retail market remains highly fragmented with the top 10 retailers having about 11 per cent total market share and half of Czechs shopping in small stores.

Foreign retailers only have 10 per cent of the market and unusually for the region it is a Czech company, Interkontakt, that is making the running with a 6 per cent market share from its chains of small and medium-sized stores.

This reflects the fact that the Czech Republic is lagging the other developing countries in central Europe in hypermarkets but foreign competition is hotting up. Globus of Germany and Interspar of Austria already operate hypermarkets and Royal Ahold of the Netherlands and Carrefour of France are building stores.

The market faces a period of rapid consolidation with foreign retailers carving up the hypermarket segment while domestic operators like Interkontakt remain significant in smaller stores.

"It will be extremely competitive," says Mr Brandon, admitting: "We are at a disadvantage not having hypermarkets at home."

Retail sales have also suffered in the current depressed economic climate but Mr Brandon remains optimistic. "We are not getting the same rate of sales growth as we did when we first came," he says. "But we knew we'd have good and bad years and we'll roll with the punches."

Robert Anderson

BANKING • by Robert Anderson

Sell-offs continue apace

Foreign expertise and capital is being sought as preparations for EU are made

Two Czech banks have been sold in the past few months and three more are on the block in a process that will not only revolutionise the banking sector but will transform the economy.

Investicni a Postovni Banka, the third largest bank by assets, was finally fully privatised in March through the sale of the state's 36 per cent stake to Nomura, the Japanese investment bank, for Kč3.03bn. Agrobanka, which is under central bank administration, is in the process of being sold to GE Capital, the financial arm of the US conglomerate, for a reported Kč2.1bn.

Next month a tender should be issued for the sale to one investor of more than 51 per cent of the state's 66 per cent stake in Ceskoslovenska Obchodni Banka (CSOB), the old foreign trade bank.

Advisers are still discussing proposals with the government for the sale to individual investors of at least 34 per cent of the two largest Czech banks: Komercni Banka, the 49 per cent state-owned commercial bank, and Ceska Sporitelna, the retail bank in which the state holds 45 per cent.

There is general recognition that the attempt to build a home-grown, largely state-owned, banking sector that would support industry as owners and lenders was a mistake. The big banks now need foreign capital and expertise to prepare for the European Union and the expansion of the European banking industry.

The government will not wait for a deal with Slovakia, which since the division of Czechoslovakia holds 24 per cent of CSOB and claims 16 per cent of Komercni, though the Czechs only recognise 13 per cent. It has also protected CSOB's privatisation from a dispute with Slovakia over a Kč15.9bn debt. Last month the government guaranteed to cover 90 per cent of the debt, with interest, if it cannot be recovered.

However, the final shape of the privatisation will have to wait on the elections in June. The Social Democrats, the likely victors, support privatisation but some momentum is bound to be lost. Ivo Svoboda, a potential finance minister, nevertheless insists: "The three big banks might be in private hands after two years but we want to make it on a correct commercial basis."

The party argues that the banks must be separated from their large industrial shareholdings before they are sold – a process that new legislation is already encouraging.

But there appears to be disagreement over the key issue of whether the state should also recapitalise the banks and take over their bad debts.

Milos Zeman, the party's leader, argues: "It would be quite impossible for us to give more subsidies to the banking sector. This government gave a huge amount of money to the banking sector without any benefit. It should be done by the private sector, by foreign investors."

However, his economic experts are more ambivalent. Mr Svoboda says the state may have to take on Komercni's bad debts and Jan Vrba, a potential industry minister, says he favours improving the debt portfolios before privatisation.

The privatisation advisers have told the government that to maximise the price it would be better to first restructure Komercni and Ceska Sporitelna, which suffer from under-provisioned bad loan portfolios.

The government is resisting this advice because the public finances are in no state to again bail the banks out. Ivan Pilip, finance minister, says: "Our strategy is not to write off bad debts. This will lower the price of course but otherwise it would postpone the privatisations and cost the state more."

However, Zdenek Bakala, whose local investment bank Patria Finance is assisting Merrill Lynch on Ceska Sporitelna's privatisation, says all bank privatisations in the region have required portfolio restructuring. "I don't believe any of these banks can be sold as they are," he argues.

The two big banks are beginning to address their portfolios but it could take one or two years before they are fully provisioned. Fitch IBCA last month downgraded both banks' long-term ratings to BBB, saying the banks "suffer from high levels of impaired lending which in the agency's view are not yet adequately reserved."

The problem is that high interest rates and the economic slowdown are worsening banks' loan portfolios almost as fast as they can repair them. And this environment also means the banks themselves are not making sufficient profits to shore up their provisions.

Profits have also fallen because the market is now much more competitive. Foreign banks are skimming off the best corporate clients and attracting the high-earning retail customers. The arrival of Nomura and GE Capital will only accelerate this process.

Without quick recapitalisation – either before, during or after privatisation – the three leading banks may struggle and fall behind as entrants become established. If this happens, the sale prices will fall and growing companies will continue to find it difficult to find loans at reasonable interest rates.

The city has attracted little foreign investment but there are hopes that investors will begin to focus on its geographical position Ann Vizoso

BRNO • by Robert Anderson

Struggling to break free

Second city tries to regain entrepreneurial culture of earlier times

Brno, the country's bustling second city of 400,000 inhabitants, is straining at its leash to be free from the dead hand of Prague's bureaucracy.

Petr Bajer, the energetic head of the city's chamber of commerce, says: "The European Union is a union of regions, but here all decisions are made in Prague.

"The system in Europe is that government agencies go to the companies, but here the agencies wait to be approached."

Until now the city has only had the country's top courts and competition authority. But, as part of the preparations for EU entry, from 2000 it will be the centre of a new administrative region.

However, little has yet been done to clarify the regions' responsibilities or how their representatives will be chosen.

In the meantime the chamber, which has a membership of more than 300 companies, wants to turn itself into a region-wide organisation and has set up a regional development agency for south Moravia and created strong links with the European Commission.

Brno has always had a more vigorous entrepreneurial culture than Prague. In the mid-18th century a textile boom led to it being called the "Austrian Manchester", and when this faded in the late 19th century engineering took over.

Since the Velvet Revolution the traditional big engineering companies such as Zetor and Kralovopolska have struggled to restructure.

Zetor, which builds tractors, has halved its workforce to 5,000 in the past five years. But because the local economy is diverse unemployment is still low, though this will rise as the industrial shakeout continues.

In place of the old industrial giants, hundreds of new service companies have sprung up, including one of the country's rare home-grown successes, the business telecommunications provider GiTy.

However, the city has not scored so well in attracting big foreign investors. ABB, the international engineering group, took over several companies but few have followed, partly because of the lack of good green field sites.

To remedy this the local centre-right council is building a technology park with Bovis, the British construction company, and has ambitious plans to develop a 100-hectare site between the railway and the bus station.

But there are no big sites it can offer free to foreign investors and private sites are difficult to find because of restitution claims over land expropriated under communism.

The city is hoping that investors will focus on the advantages of its geographical position, two and a half hours from Prague by motorway, two hours from Vienna and one and a half hours from Bratislava.

The motorway to the north is being continued to the Polish border and the Berlin-Vienna main railway line will be upgraded as part of the European high-speed network.

The great lack, however, is international flight connections as the local airport only runs daily flights to Zurich and Eindhoven. The council hopes that this will improve after the airport is privatised and it plans to establish a business zone nearby.

One company that makes the most of the city's position is BVV, which runs the Brno international exhibition fairs.

"The fair is one of the biggest advantages of Brno," says Mr Bajer. "It is a meeting place for west and east European companies."

The fair, which is celebrating its 70th anniversary this year, is the biggest in the country and one of the largest in the region. Last year 43 fairs were held with 500,000 sq m of exhibition space occupied – half the country's total – and attracting 1m paying visitors.

The fairs, at which BVV estimates Kc70bn of business is conducted, used to act as a showpiece for communist industrial might, and the company is now once more targeting exhibitors from the former Soviet Union.

"It was difficult for us after 1989 when the Soviet exhibitors disappeared," says Jaromir Hazmuka, deputy general director.

"We still have scope to expand there and this will back up our efforts to make the fair truly international."

PROFILE Zetor

Tractor maker's drive stalled over funds

Zetor, one of central Europe's largest tractor manufacturers, is a company in search of capital.

Since the government took the first steps towards privatisation in 1993, the Zetor managers have done much to make the business more commercial and more efficient and switch from supplying the Communist bloc to exporting 95 per cent of output to hard currency customers.

The sprawling site in Brno is littered with old buildings which are no longer used.

But there are also signs of progress with new computer systems controlling production and a new assembly hall for making tractor cabs and glossy new models which bear little resemblance to their Communist-era predecessors.

Further progress is being severely hampered by a shortage of funds. Even with the help of the state in writing off Kč5bn in debts, Zetor is undercapitalised, with just Kč2.2bn of capital on its books and Kč3bn in loans. It wants to spend another Kč1.8bn modernising its works and to finance more new models.

The government, which owns 98 per cent, is negotiating to sell a controlling 34 per cent stake in Zetor to Motokov, a former state-owned trading company now in private hands which has long handled most of Zetor's export sales.

But Motokov is not expected to have the resources to finance Zetor's expansion.

In the meantime, the company must rely on its own financial performance. But, even though it has cut losses in recent years – from Kč1.6bn in 1996 to Kč387m last year – it is still trading in the red. It does not expect to reach break-even until next year.

To start making enough profit to finance investment, it needs to raise output and margins substantially. Tractor production has risen sharply from a low in 1993 of 6,500 to 13,000 last year and a forecast 14,000 in 1998.

But the company estimates it would need to make 18,000-19,000 a year to make full use of of capacity and maximise profits.

It has cut costs mainly by reducing the payroll from more than 10,000 in Zetor's Communist heyday to 4,800, including 1,500 jobs lost last year.

Miroslav Polacek, the general director, says no more large-scale redundancies are planned but the plant could shed more jobs over time. The cuts have been made at a time of low unemployment, so many redundant workers have been able to find other jobs.

But, with the jobless rate now rising in Brno as elsewhere, future cuts could bring social dislocation. "It will not be easy," says Mr Polacek.

Executives have also tried to improve productivity by tightening managerial control. The installation of a computer system into all aspects of the plant, including design, production, sales and financial control, is now 80 per cent complete.

Major components in the plant carry computerised docket slips along the assembly line, so that each can be instantly identified and correlated with a customer. The plant no longer makes to stock but to order, so waste of time and components is reduced.

Mr Polacek says the average stock turnover has been cut from two months to about two weeks, a remarkable improvement by international standards. However, this streamlining has not been easy.

For example, output of certain models has been hit in recent months by shortages in a new line of bonnet hoods, supplied by a component maker who has had technical problems in his factory.

Meanwhile, the tractors have become increasingly sophisticated, particularly those aimed for developed country markets in North America and western Europe, while the production of low-cost models for developing countries continues.

Like-for-like, Zetor tractors are 15-20 per cent cheaper than those of top western makers such as Deere and Agco of the US. But Mr Polacek says the company does not compete only on price. "We make quality tractors."

Zetor tractors are becoming increasingly sophisticated Ann Vizoso

Stefan Wagstyl

PROFILE Bonton

Making a powerful beat

Last October, Bonton, the leading Czech film and music company, was poised to launch the country's second, and only significant, initial public offering (IPO). The day before the issue Wall Street tumbled on the increasingly bad news from Asia.

"We yanked it," says Mick Hawk, the company's American co-president. "We wanted to keep our investors and we didn't want our shares to drop 25 per cent."

Instead the company, which the $30-40m issue valued at $85m, has taken a $15m loan from a private investment fund of its advisers, Morgan Stanley. This can be converted into shares when the company goes ahead this autumn with what will be a larger issue than first planned.

The postponement was a rare setback for a company that has been first and largest in most things it has attempted since it was founded in 1990 by chairman Martin Kratochvil, a jazz musician and friend of President Vaclav Havel.

After building up capital by selling recordings of Mr Havel reading one of his plays, English language cassettes and a Rolling Stones album during their tour to Prague, Bonton staked it all in 1991 on making the first privately-produced film in the former east bloc. Tank Battalion came up trumps and still holds the post-1989 record for admissions.

Using the film's earnings, Bonton bought the state classical record label Supraphon in 1993 for a paltry Kč15m. The famous label, which has a back catalogue of 70,000 works, had big debts and was in terrible shape but Bonton was able to sell the Japanese rights for five times its initial purchase price. It then got rid of most of the stores, cut the workforce from 2,000 to 40, and revolutionised marketing and distribution.

"Supraphon doubled the size of the company," says Mr Hawk. "Nowhere else in the world can you own an entire country's output for 45 years. It is a cash cow, a money-making machine."

After a period of consolidation, Bonton raised $9m through Credit Suisse First Boston in the country's first significant private placement and then in 1996 built the first music megastore in central Europe on Wenceslas Square in Prague and opened (with a local partner) the first multiplex.

Bonton is now the largest film, music and video distributor and the biggest music producer and retailer in the Czech Republic and Slovakia.

In its next leap, Bonton last year forged three joint ventures with foreign partners. It has linked up with Gaumont, the French cinema company, to build six multiplexes in the Czech Republic and Slovakia. It sold half its Bonton Radio station in Prague to Clear Channel Communications, the US radio operator, for $1m and together they plan to buy more than 10 radio stations in the Czech Republic and Slovakia. And it has put its music distribution business into a joint venture with Sony to become the country's biggest music distributor.

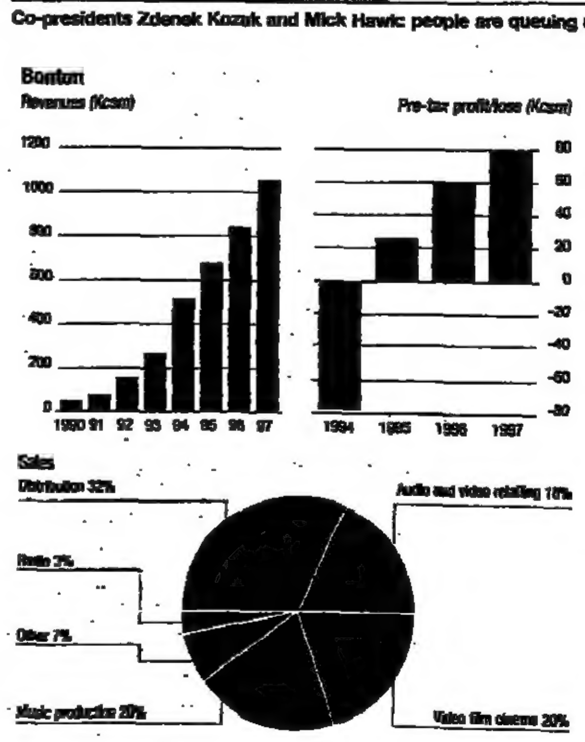
The postponement of the IPO has delayed Bonton's ambitions to expand its megastores into Poland through a joint venture with Intercam, a local retailer, but the company is still going ahead with a range of other purchases from the Fun Radio chain in Slovakia and the Zlin film studio site, to a book publisher, a video company and a mail order club.

Bonton's growth and ambitions are staggering but unlike many Czech businesses it has kept its focus and enjoys numerous synergies between its production, distribution, retailing, projecting and broadcasting of film and music.

It has also not over-extended itself with loans and has relied on cash-flow and its private placement to fund growth. It has kept its independence - though even before the IPO 30 per cent of the shares are held by the private placement investors - and has become so dominant in the Czech Republic that foreign companies are queuing up to work with it.

After its IPO Bonton may eventually go one better and become central Europe's first home-grown entertainment giant.

Co-presidents Zdenek Kozak and Mick Hawk: people are queuing up to work with them Ann Vizoso



Source: Bonton

Robert Anderson